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# STRENGTHENING PRIVATE SECTOR-LED INCLUSIVE ECONOMIC GROWTH IN PAKISTAN

## Final Report: Small and Medium Enterprise Activity

October 2022

This publication does not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States government. Chemonics International Inc. prepared the report for USAID's review.

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#### Photo Captions:

Front Cover: GreenO is a fresh juice company. With USAID support, GreenO procured new equipment to improve its process efficiency and quality and acquired international certifications to access new local and international markets. As GreenO's revenue grows, its demand for agricultural produce also grows, contributing to agribusiness sector growth in Sindh and increasing Pakistan's exports.

Back Cover: A Darewro delivery driver rides a motorbike to make his next delivery. With a USAID grant, Darewro developed a web platform to reach new customers and information management systems to streamline the company's financial and human resource management. As a result, the business solidified its place as the largest motorbike delivery service in Khyber Pakhtunkhwa.





Sana Traders is the leading manufacturer and exporter of Himalayan salt products from Pakistan. The family-owned company produces more than 450 products, including Himalayan gourmet salt, décor, and health and wellness products. With an innovation grant from SMEA, Sana Traders procured the latest packaging machines, metal detectors and conveyor belts used for food-grade inspection, and machines to make salt blocks. With the new equipment, the company can now produce smaller, shelf-ready packs tailored to the needs of its customers. Today, Sana Traders exports to more than 45 countries worldwide. © SMEA

## ACRONYMS

ADR	Alternative dispute resolution
BDS	Business development services
BDSP	Business development service provider
BEE	Business enabling environment
EOI	Expression of interest
FTE	Full-time equivalent
GDP	Gross domestic product
ICT	Information and communications technology
KP	Khyber Pakhtunkhwa
LOA	Life of activity
MEL	Monitoring, evaluation, and learning
MoIP	Ministry of Industries and Production
NMD	Newly merged district
PCGC	Pakistan Credit Guarantee Company
PCI DSS	Payment Card Industry Data Security Standard
PPP	Public-private partnership
PSI	Private sector investment
SEO	Search engine optimization
SID	Sindh Investment Department
SIDB	Small Industries Development Board
SIV	Specialized investment vehicle
SME	Small and medium enterprise
SMEA	USAID/Pakistan Small and Medium Enterprise Activity
SMEDA	Small and Medium Enterprise Development Authority
SSIC	Sindh Small Industries Corporation
USAID	United States Agency for International Development
USG	United States government

## EXECUTIVE SUMMARY

In 2016, Pakistan seemed poised for an economic upturn. Annual gross domestic product (GDP) had increased from 3.5% in 2012 to 5.5% in 2015, and 3G and 4G mobile services were being rolled out across the country with the potential to accelerate technological innovation and drive economic growth. Yet an increase in GDP had not resulted in growth at the level of Pakistan's small and medium enterprises (SMEs). Despite comprising more than 90% of the country's 5 million businesses, SMEs accounted for only 35% of total value added and 30% of export earnings. Low-productivity SMEs had trouble integrating into global value chains. Women's businesses faced specific constraints, including isolation; lack of access to education, finance, and technology; and limited mobility.

The United States Agency for International Development (USAID) launched the Small and Medium Enterprise Activity (SMEA) in December 2016 to contribute to USAID/Pakistan's Development Objective to increase private sector-led inclusive economic growth by improving the business enabling environment (BEE) and increasing employment opportunities in Pakistan. SMEA supported this objective by improving the competitiveness of Pakistani SMEs in six target sectors: agribusiness, information and communications technology (ICT), textiles, hospitality, logistics and packaging, and light engineering, and for women's businesses in all SME sectors. SMEA also addressed the minerals and leather sectors as part of its policy work. Interventions focused on increasing SME business knowledge and access to finance, markets, and technology, with an emphasis on enabling women to run profitable businesses. In addition, SMEA worked to reduce crucial policy, legal, and regulatory barriers in the target sectors and for SMEs in general.

During six years of implementation, SMEA engaged with 6,291 public and private entities across all regions of Pakistan. SMEA helped 45 government institutions develop, analyze, and implement policy, leading to the advancement of 33 economic growth policies. SMEA facilitated the provision of business development services (BDS), training, and grants to 6,030 SMEs, of which 28.5% (1,720) were women-owned or women-led.<sup>1</sup> As a result, SMEA's efforts to enhance SME competitiveness led to \$158 million in increased sales, including \$74 million in increased exports; 43,891 new job opportunities leading to 13,780 full-time equivalent (FTE) jobs; and \$51.5 million in private sector investment (PSI) leveraged by supported SMEs.

SMEA demonstrated that enhancing the economic performance of SMEs in target sectors and improving the BEE help Pakistani SMEs realize their immense potential to generate economic growth, raise living standards, and engage people in productive and rewarding work.

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<sup>1</sup> To increase the number of women benefiting from the activity, SMEA supported women's SMEs both within and outside the six target sectors. In addition to supporting 344 women-owned businesses in the target sectors, SMEA supported 1,347 women-owned businesses in non-target sectors and an additional 29 non-target sector businesses that were owned by men, but with women in top management positions (i.e., women-led businesses). Altogether, SMEA supported 1,720 women-owned or women-led businesses, representing 28.5% of the 6,030 SMEs supported.



# Results Across All Technical Areas

6,030



**SMEs** received business development services, grants, and training, including **1,691** female-owned SMEs



\$158

**million increased sales**



33

**economic growth policies** advanced



\$51.5

**million private sector investment** leveraged



6,291

**public and private entities** engaged by SMEA



\$74

**million increased exports**



43,891

**job opportunities** created, including **14,710** job opportunities for women

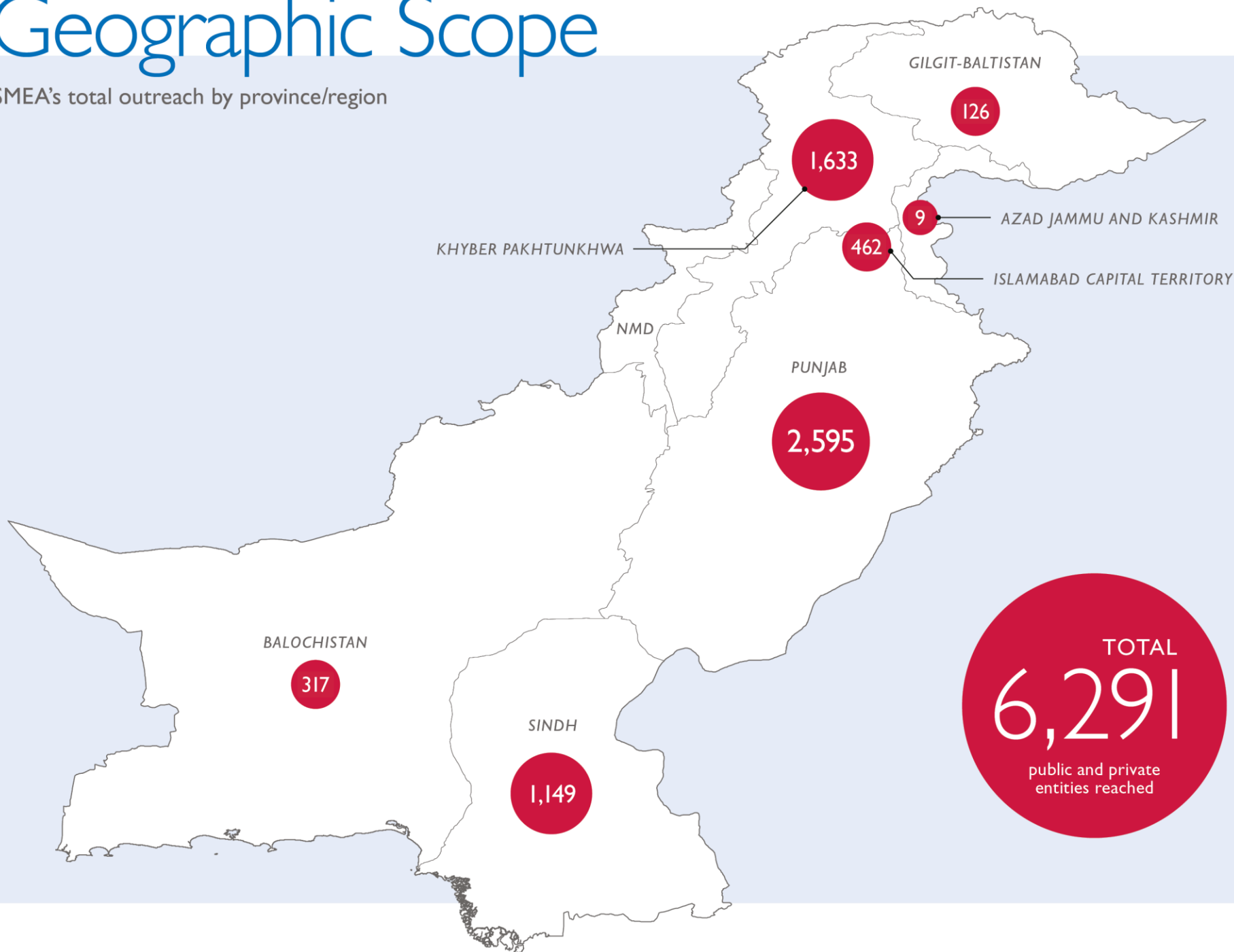


13,780

**full-time equivalent jobs** created, including **3,892** full-time jobs for women

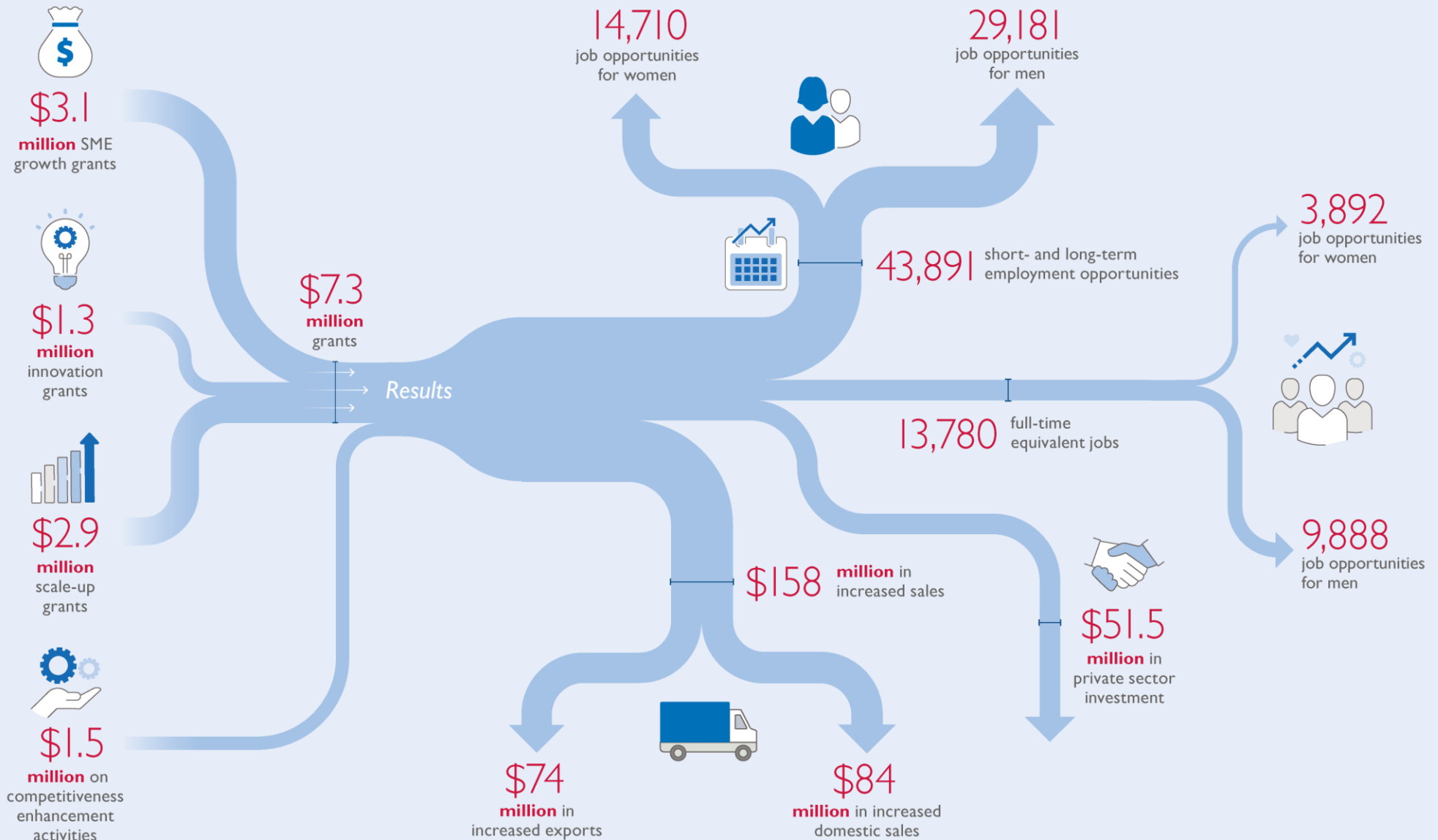
# Geographic Scope

SMEA's total outreach by province/region





# SMEA's Value for Money



# CHAPTER I. ADVANCING POLICIES TO IMPROVE THE BUSINESS ENABLING ENVIRONMENT

## CONTEXT AND CHALLENGES

At SMEA's outset, the federal and provincial governments lacked institutional capacity to develop and implement policy, legal, and regulatory reforms. Officials often decided policy behind closed doors without adequate consultation of stakeholders, in part due to the top-down nature of Pakistani planning and in part due to the inability of industry organizations to exert pressure on policymakers.

Weak institutions, entrenched interests, and burdensome regulatory requirements made it difficult to do business in Pakistan. Large players who were used to getting their way dominated the business environment. Most trade associations favored large businesses rather than their SME constituents and were ineffective at articulating sectoral needs. As a result, many reforms fell into bureaucratic black holes, and individual firms were left to fend for themselves.

A complex legal and taxation environment also posed a challenge for SMEs. Seven years after devolution under the 18th amendment, federal and provincial authorities were still negotiating the boundaries on subjects including revenue, excise and taxation, tourism, and transport. Lack of harmonization of taxation between the provincial and federal levels made it difficult for SMEs to navigate the business environment. As a result, enterprises were reluctant to register and formalize their businesses. SMEs also reported being constrained by contract enforcement requirements, lack of access to credit, tax policies, and administrative and regulatory compliance. Women's enterprises faced additional constraints such as inheritance laws, unequal treatment, and predatory behavior of government officials.

## APPROACH

SMEA built the capacity of government institutions at the federal and provincial levels to develop and implement reforms to policies, laws, and regulations. The activity focused on reforms that would contribute to SME development and had high levels of support from the government, private sector entities, and civil society. To address the challenges governments faced in implementing reforms, SMEA reviewed the institutional design and implementation procedures of government departments and identified areas that required support. SMEA worked directly with government institutions to initiate and advance reforms while actively engaging the private sector and analyzing barriers to growth.

SMEA facilitated public-private dialogue to strengthen private sector and civil society engagement in policymaking and ability to advocate for key reforms. Dialogue sessions brought together a diverse constituency of representatives from the private sector and civil society to engage constructively with the government and identify policy changes that would remove barriers to SME competitiveness. SMEA then developed sector-based intervention strategies with clear objectives, targets, and implementation milestones. The next section summarizes activities and results, including highlights of accomplishments.

# By the Numbers

Advancing Policies to Improve the Business Enabling Environment



**33**  
**economic growth**  
**policies** advanced

**45**



**government institutions** with enhanced  
capacity to develop, analyze, and implement policy

**25**



**reforms** consistent with the  
World Bank benchmarks on doing  
business recommended

**143**



**meetings** with government officials  
regarding proposed changes in legal  
or institutional framework

**145**

**SMEs and private sector entities** participated in  
events for private sector engagement in policymaking



## ACTIVITIES AND RESULTS

Over the course of the activity, SMEA engaged with 6,291 public and private sector entities and supported dialogue events where 145 SMEs and private sector entities participated. Through engagement, SMEA enhanced the capacity of 45 government institutions to reform, develop, and implement policy. As a result of its efforts, SMEA advanced 33 policies, regulations, or frameworks with the potential to improve the BEE for SMEs in Pakistan (see list on page 23).

In Year I, SMEA conducted a BEE analysis that provided a detailed diagnostic framework and situational analysis of SME issues in Pakistan. Based on a comprehensive literature review and meetings with stakeholders from the private and public sectors, the analysis identified key constraints faced by SMEs, including women's enterprises, as well as gender-related issues in Pakistan's regulatory environment (see box). This assessment facilitated the BEE team in identifying and prioritizing reforms required from the policy, regulatory, institutional, and advocacy side.

### POLICY AND REGULATORY CHALLENGES FOR SMES

A country's BEE — including laws, regulations, policies, administrative procedures, and infrastructure — affects the movement of products along its value chains to either improve or weaken the operating environment for businesses. At the activity's outset, SMEA assessed the BEE for SMEs in Pakistan to understand the legal and regulatory constraints affecting these enterprises. The top constraints faced by SMEs include electricity shortages, corruption, political instability, limited access to finance, and inconsistent tax administration. Other constraints include crime, high tax rates, court backlogs, and burdensome trade and labor regulations. Women-owned enterprises were more adversely impacted by corruption, political instability, lack of access to finance, and tax administration issues. SMEA used the results of the BEE analysis to inform policy analysis, discussions with government counterparts, and the activity's BEE reform agenda and interventions.

Informed by the BEE analysis, SMEA consulted senior government officials and key stakeholders to explore areas of mutual interest and establish collaborations for the introduction and implementation of reforms, policies, laws, and regulations for the SME sector. Following a series of introductory meetings with federal and provincial government entities, SMEA received formal requests for assistance to improve the BEE through various interventions.

### IMPROVING PUBLIC SECTOR ABILITY TO REFORM POLICIES, LAWS, AND REGULATIONS

When SMEA commenced, Pakistan's SME Policy had not been updated since the Ministry of Industries and Production (MoIP) initially rolled it out in 2007. More importantly, the associated regulatory and institutional frameworks required were not in place. Although the country's policies had liberalized markets in the 1980s, its regulatory frameworks remained old and outdated. Moreover, compliance regimes were restrictive and lacked a business focus. To address these weaknesses, SMEA carried out activities to improve the government of Pakistan's ability to reform policies, laws, and regulations.

## **BUILDING A BUSINESS ENABLING ENVIRONMENT AT THE FEDERAL LEVEL**

*SME Policy 2021.* SMEA's crowning achievement was the reform of Pakistan's SME Policy, which improved the policy and regulatory environment for SMEs and addressed market constraints on both the demand and supply sides. SME Policy 2021 introduced business-friendly policies and regulations to enable SMEs to flourish, such as measures to eliminate or simplify regulatory requirements.

In Year 1, SMEA initiated collaboration with the Small and Medium Enterprise Development Authority (SMEDA), the apex body in the federal government dealing with SME-related issues, to review and update the 2007 SME Policy. SMEA held three working group meetings to develop a scope of work to solicit proposals for review and revision of the policy. The activity then engaged the Consortium for Development and Policy Research to align the SME Policy with market realities and propose reforms for strengthening the SME sector. Crucially, SMEA held detailed consultations with more than 250 public and private stakeholders across four provinces to inform the new policy.

With input gathered from outreach efforts, SMEA collaborated with the federal government through SMEDA to propose revisions to Pakistan's SME Policy in Year 2. SMEA presented the revised SME Policy at a meeting of the second National Steering Committee Meeting chaired by Advisor to the Prime Minister on Industry, Commerce, and Investment Abdul Razak Dawood. After a detailed



SMEA and SMEDA officials presenting the revised SME Policy to Advisor to the Prime Minister Abdul Razak Dawood.

presentation and deliberations on proposed policy, regulatory and institutional changes, the committee took the policy forward for approval and implementation by the government.

The new policy framework is based on two pillars: reforming the policy and regulatory environment and addressing SME market constraints. Demand-side constraints concern issues of market access and the role of public procurement in creating demand for SME products and services. On the supply side, the focus is on BDS, entrepreneurship and innovation, credit and skills markets, and infrastructure provisions necessary for SME growth. The new policy also puts forward a revised definition of SMEs (see box, next page) and recommends an institutional framework for implementation.

In September 2020, at a meeting of the National Committee on SMEs, Prime Minister Imran Khan approved the SME Policy's proposed macroeconomic framework and directed the MoIP and SMEDA to develop an action plan to implement the policy. In Year 4, the prime minister approved the policy's economic parameters, pillars, and action plan. SMEA worked closely with the ministry and SMEDA to strengthen institutional and regulatory frameworks to support the policy's rollout.



As a result of the policy, public and private stakeholders now have a uniform definition of SME, which enables them to target enterprises for interventions according to their size. The definition is comparable to international definitions, appropriate for Pakistan's context, and suitable for use by all stakeholders in Pakistan. SMEs now benefit from revised rules governing the Public Procurement Regulatory Authority to accommodate SMEs in the bidding process by including a quota for SMEs in public procurement.

Taxation reforms and MoIP approval of a “regulatory guillotine” model to simplify and eliminate regulations also benefit SMEs. The policy recommended an institutional framework for implementation and proposed a macroeconomic framework with recommendations that are intended to create a conducive environment for SMEs to grow. SMEs can now benefit from improved access to finance through an SME Fund worth PKR 30 billion (\$136.5 million) established by the government of Pakistan as part of the SME Policy.

### **WHAT IS A SMALL AND MEDIUM ENTERPRISE?**

Through SMEA's engagement, public and private sector stakeholders in Pakistan developed the following definition of an SME:

*A registered, independent enterprise with a sales turnover between PKR 6.5 million (\$29,575) and PKR 100 million (\$455,000) for small enterprises and between PKR 100 million (\$455,000) and PKR 650 million (\$2.96 million) for medium enterprises.*

*E-Commerce Policy and promotion.* SMEA collaborated with the USAID/Pakistan Regional Economic Integration Activity and the Ministry of Commerce to contribute to the development of the Strategic Trade Policy Framework 2020-2025. SMEA developed recommendations for promoting local and international e-commerce for inclusion in the commerce and trade policy framework. In a meeting chaired by the prime minister, the federal cabinet approved the e-commerce recommendations. The government announced the first-ever E-Commerce Policy in October 2019, incorporating SMEA's recommendations. These recommendations include establishment of an e-commerce business facilitation hub, initiation of a program to train 50,000 SMEs from remote areas in the use of online marketplaces for e-commerce, shifting of government procurements and transactions to online payment systems within three years, and implementation of World Trade Organization regulations on data protection. In addition, through the Strategic Trade Policy Framework, the Ministry of Commerce, in coordination with relevant organizations, will implement the SME Policy, which aims to improve the business and regulatory environment, strengthen the entrepreneurial ecosystem, and institutionalize support for SMEs.

As a result of SMEA's contributions to the Strategic Trade Policy Framework and E-Commerce Policy, SMEs can benefit from the availability of e-commerce platforms and associated investment, which can create economic opportunities with minimal dependence on capital-intensive infrastructure. This has the potential to benefit underserved areas and create employment opportunities for women, youth, and other disadvantaged populations. Further, by supporting the sustainable growth of e-commerce in Pakistan, the policy provides an even playing field for domestic and international players operating in the e-commerce space. The new policy was timely: According to the State Bank of Pakistan, the number of e-commerce merchants increased from 1,707 in 2019-2020 to 3,003 in 2020-2021, a 76% increase.

*COVID-19 impact study and compliance easing.* SMEA surveyed its network of SME beneficiaries and contacts to analyze the impact of the COVID-19 pandemic on SMEs in target sectors and women's businesses. The study found some sectors coped well with the shock, while others struggled. According to SMEA's 2020 survey:

- Forty-three percent of SMEs closed completely, 34% were partially operational, and 23% were fully operational.
- Hospitality was the most affected sector, with 75% of supported enterprises closed.
- SMEs expressed concern about decreased customer demand, health impact, reduced cash flow, diminished availability of other resources (e.g., ICT connectivity, transport, movement of labor and materials), and staffing shortages.
- SMEs quickly adapted to alternative means of communication while working remotely, using the phone (55%) or cloud-based online tools (32%) to communicate.
- SMEs identified government support priorities as short-term working capital, concessions on utility bills, taxation relief, and deferred lease and interest payments.
- Except for logistics, all sectors in the survey reported more than 50% reduction in staff, with the hospitality sector reporting 75% staff reduction.

In 2021, SMEA disseminated a report identifying compliance regimes that the government could temporarily relax or permanently abolish to support the revival of SMEs in Pakistan. Recommendations for both the federal and provincial governments included exemption of labor charges for six months, removing the requirement for contributions to new registrations for social security, and reducing the frequency of filing sales tax, among others. Already during the activity, the federal government adopted two of the recommendations: on delaying enforcement of the computerized national identity card requirement for buyers and increasing the number of days for clearing shipments without penalty from 15 to 60. Khyber Pakhtunkhwa (KP) has implemented the recommendation to eliminate professional tax. As a result, SMEs benefited from the easing of compliance regimes, which saved time and reduced costs for affected enterprises.

*BEE Index.* SMEA developed a BEE Index to inform SMEs about market conditions influencing the ease of doing business across different regions. The index addressed the underlying issues hampering the credibility of World Bank's Ease of Doing Business Index, such as being limited to the cities of Lahore and Karachi and its focus on relatively large-scale businesses rather than SMEs, which comprise more than 90% of businesses in Pakistan. SMEA designed and piloted the index using input from subject-matter experts and potential users in the government, private sector, and civil society. SMEA presented the index to stakeholders who identified the Board of Investment as the best candidate to house the index. As a result of the BEE Index, the federal and provincial governments now have access to relevant data to make informed decisions, and SME sector stakeholders have accurate information to measure economic and social improvements.

*Fintech regulations and regulatory sandbox design.* As access to the internet and low-cost mobile services expand, Pakistani SMEs have opportunities to build the country's nascent financial ecosystem. Digital innovation in the financial sector can enhance Pakistan's competitiveness, improve service delivery, and increase financial inclusion. However, Pakistan needs a predictable, competitive, and enabling commercial environment and regulatory framework for the financial technology (fintech) sector and associated companies (fintechs). Such an environment should provide an opening for fintech SMEs to introduce innovations with less burdensome regulatory requirements. In response to a request from the State Bank of Pakistan, SMEA proposed and developed a regulatory framework for fintech. SMEA's policy support to improve the BEE for the fintech sector complemented its support of innovative fintech SMEs, such as UniKrew and Avanza (see box).

### **IMPROVING THE BUSINESS ENVIRONMENT FOR FINTECH ENTERPRISES**

SMEA awarded a Challenge Fund grant to fintech SME UniKrew to develop an application that overcomes the physical barriers to financial inclusion. In 2017, only 21% of Pakistanis were financially included (compared to 69% of people globally), meaning that they benefit from formal banking and financial services and can mitigate financial losses with insurance, loans, or savings. UniKrew developed a cognitive authentication suite for commercial banking apps that digitally authenticates an individual's identity through computerized national identity card numbers, and facial and fingerprint recognition. This new technology allows banks to bring on board customers without them having to come into the bank in person. This app enables entrepreneurs, such as women in remote areas, to open and access bank accounts from the convenience of their homes.

Although e-commerce produced nearly \$6 billion in revenue in 2021, cash-on-delivery remains the predominant form of payment in Pakistan. Digital payments offer great promise for improving efficiency and expanding access to services for consumers and businesses. Through a business development service provider (BDSP) and SME partnership, SMEA supported Avanza Premier Payment System to obtain Payment Card Industry Data Security Standard (PCI DSS) certification. Avanza created a unified checkout experience that accepts traditional cards, mobile wallets, and account-based payments. Consumers can now carry out transactions online using their bank account number in combination with their national identification number, with confidence that these transactions are secure under a PCI DSS-certified infrastructure, cementing Avanza as a protected digital payments service provider.

SMEA recommended new policy frameworks in line with global best practices to support the fintech ecosystem in Pakistan. The activity recommended a gradual shift to a risk-based and technologically neutral approach to fintech regulation, more coordination among regulators, clarification of rules around use of artificial intelligence and data privacy, and improved capacity building for fintech innovators, regulators, and policymakers.

To complement the fintech framework, SMEA supported the design of a "regulatory sandbox" to facilitate fintech innovation in a controlled environment. The proposed sandbox environment would allow innovators to test new services or technologies within defined criteria, including time and product restrictions, while allowing regulators the opportunity to measure the impact and craft appropriate regulations or authorization criteria for post-sandbox implementation. The State Bank of Pakistan has

endorsed the framework and roadmap developed by SMEA. As a result, enterprises operating in the fintech sector benefit directly from an improved regulatory environment, while SMEs in other sectors benefit from enhanced access to finance through fintech-supported technology.

*Safeguarding food security through investment.* During the activity, Pakistan's inadequate storage capacity for agricultural commodities and insufficient information regarding stock availability led to unstable commodity prices, as well as food security concerns. SMEA conducted a feasibility study on investment in grain silos in Pakistan. The study examined the development of commercially viable drying and storing facilities, which would create employment opportunities while contributing to the development of a robust value chain. The results of the study demonstrated that farmers could make substantial gains by drying and storing their wheat, rice paddy, and maize at a common silo facility. In February 2021, at a meeting with the prime minister and the Ministry of National Food Security and Research, the Pakistan Agriculture Coalition discussed recommendations based on SMEA's study. The prime minister approved the proposals. Subsequently, the government of Pakistan's Finance Bill FY 2022 included most of the budget proposals emanating from the feasibility study, thereby bolstering Pakistan's food security through investment in agricultural warehousing.

*Tourism sector revival plan.* In 2020, given the adverse economic impact of COVID-19 on global tourism, SMEA identified the need to develop an economic revival plan for the hospitality sector. The activity hired consultants to analyze the state of tourism in Pakistan and recommend ways to accelerate the revival of the tourism sector to stimulate local economic growth and create sustainable employment. Based on the analysis, SMEA produced a report outlining recommendations in three priority areas: national coordination, public-private partnerships (PPPs), and destination management. The report identified key success factors as sustainability, institutional outreach, restoring confidence, education and training, fostering innovation through entrepreneurship and digital startups, and national and regional joint marketing. SMEA disseminated the final report to its network of private and public stakeholders.

## **BUILDING A BUSINESS ENABLING ENVIRONMENT IN PUNJAB**

*Punjab investment policy.* At the request of the government of Punjab, SMEA worked with its Planning and Development Department to develop an investment policy framework for the province. The Punjab government prioritized investment mobilization as a key driver for economic growth, necessary to expand productive capacity and promote job creation. The provincial government needed appropriate incentives to attract domestic and foreign investors while balancing investor demands with public interest. By the end of Year 2, SMEA formulated an investment policy framework for the government of Punjab that highlighted key policy principles for investment mobilization, including legal and institutional analysis. The framework especially focused on SMEs and mapped out the needs of various departments for investment promotion, facilitation, and aftercare.

In January 2019, SMEA presented the initial report on the framework to Habib Ur Rehman Gilani, chair of the Planning and Development Department, in the presence of representatives from the Investment Climate Reform Unit. Based on the chairman's feedback, SMEA augmented the report to include provincial reforms for ease of doing business and a policy implementation matrix. The framework formed the foundation of a policy geared toward attracting investment. The framework suggested incentives to integrate more SMEs into the value chains of larger firms, especially transnational firms. It also made recommendations for deepening linkages between domestic SMEs and foreign companies by offering incentives to foreign investors to help upgrade SMEs. SMEA received an official letter from the Planning and Development Department acknowledging its work. The Investment Climate Reform Unit adopted this policy framework and recommended that the provincial cabinet formally approve it. SMEA's support for Punjab's investment policy framework complemented its support to provincial SMEs like Mega Green (see box).

### **SUPPORTING LIGHT ENGINEERING ENTERPRISES IN PUNJAB**

Mega Green is an original equipment manufacturer unit that develops ready-to-use parts for different companies. Its clients include Millat Tractors, Isuzu Gandhara Motors, and Ravi Suzuki. Local businesses in Pakistan struggle to meet increased demand for locally manufactured auto parts due to a shortage of resources and inadequate skills. Mega Green has set up a state-of-the-art technical service center in Lahore to overcome this challenge, using reverse engineering to design, develop, and test prototypes. Through a USAID challenge grant and scale-up grant, the business procured the right machines and equipment to develop custom designs and prototypes of locally manufactured auto parts — thus helping reduce overreliance on imported ones. As a result, the company grew its revenue and now employs more than 80 people. Despite economic challenges from the COVID-19 pandemic and supply chain issues, with USAID support, Mega Green maintained its employment numbers, and the business continues to promote localization and the local manufacturing industry.



*Institutional support to the Punjab Board of Investment and Trade.* SMEA worked with the Punjab Board of Investment and Trade to review and refine the draft Punjab Investment and Trade Promotion Strategy; review and revamp the board's structure to address capacity challenges; and collaborate with the board and SMEDA to create a platform for supporting SMEs through grants and training. The Punjab Board of Investment and Trade revised its draft Punjab Investment Promotion Strategy considering SMEA's



investment policy framework reports. SMEA reviewed and provided feedback on the revised strategy. The BEE team proposed actions and initiatives such as strengthening institutions that engage in trade and investment activities by developing human resources, improving resource utilization, building investment portfolios in key areas, focusing on investors' aftercare, and expanding the scope of investment activities to include trade-related investments. The analysis also suggested adopting a comprehensive approach to improving the investment climate through institutional support and effective coordination between the government and private sector institutions to create synergies and coherence among various stakeholders of the trade and investment arena of Punjab and the country. SMEA's recommendations considered the growth potential of provincial SMEs, particularly in the agriculture and services sector. This strategy is an important milestone toward catalyzing commercial and industrial sector development in Punjab by strengthening and integrating SME participation in local and global value chains. The Punjab Board of Investment and Trade acknowledged SMEA's report in March 2022.

*Strengthening Punjab's minerals sector.* The Punjab Mines and Minerals Department engaged SMEA to identify improvements in policy, regulatory, and institutional structure for the minerals sector to optimize investments and development of current and new mines. SMEA carried out a comprehensive literature review and extensive consultations with experts from the public and private sectors and academia to develop recommendations. To strengthen minerals governance in Punjab, and to facilitate and support improved investment, SMEA recommended that the department:

- Develop a clear policy rationale and priorities for Punjab minerals development and establish an intergovernmental mining policy planning committee.
- Prepare and publish a geodata management policy and adopt geodata management rules.
- Consider a moratorium on the use of auction to the highest bidder and develop and publish time-based quarry auction processes.
- Strengthen license requirements through eligibility propositions and to address fiscal issues.
- Streamline mines committee approvals through regulatory oversight.
- Reevaluate the role of government by assessing departmental activities and shifting risk to investors.
- Assess the current structure of minerals agreements.

SMEA presented the findings to the Mines and Minerals Department and other public sector stakeholders to identify priority areas for improved upstream (e.g., exploration and exploitation) and downstream (e.g., processing, transformation, trade, export) minerals governance, and to optimize the department's capacity to manage the sector efficiently and effectively.

*Environmental standards in the leather value chain.* SMEA worked with the Environmental Protection Agency to develop graduated environmental standards for the leather sector in Pakistan. At the outset of the initiative, SMEA met with key value chain stakeholders, including the Punjab and Sindh Environmental Protection Agencies, Cleaner Production Institute, Lahore and Pakistan Tanneries Association Central, and the president of the Combined Effluent Treatment Plant to discuss challenges

and opportunities. The team organized focus group discussions in Lahore and Sialkot to collect primary data. SMEA then conducted a literature review of U.S. and European regulatory frameworks and legislation, as well as practices in countries with similar characteristics to Pakistan, to collect secondary data. SMEA analyzed the data to identify gaps in Pakistan's leather value chain and outline the administrative, implementation, legal, and financial challenges affecting the sector. SMEA's report proposed short-, medium-, and long-term measures, considering domestic constraints and international best practices. Recommendations included revisions to the legal framework, industry-specific parameters, and environmental quality standards, along with an implementation plan. In the short term, the report proposed different allowable limits of effluent discharge for tanneries of different sizes. In the medium term, it recommended relatively stricter treatment. In the long term, the study recommended relocating all tanneries into specially designated tanneries zones.

Through this intervention, SMEA assessed the correlation between environmental compliance and SME business investments. The leather processing units, which are primarily SMEs, struggled to adopt environmentally friendly practices due to resource and financial constraints. The revised, progressively stringent environmental standards provide a practical solution for environmental compliance and incentivize investment in environmentally friendly technologies by providing rebates and training. The Punjab Environmental Protection Agency expressed its intention to implement SMEA's proposals.

#### **BUILDING A BUSINESS ENABLING ENVIRONMENT IN SINDH**

*Sindh commerce policy.* The government of Sindh engaged SMEA to develop a domestic commerce policy for the province to rationalize domestic trade and industry. The policy aims to make the province competitive and viable in the domestic and international markets by catering to domestic demand as well as producing high-quality and value-added exports. SMEA worked with the Sindh Industries and Commerce Department to study the business environment and domestic commerce practices in Sindh. Based on a literature review and stakeholder consultations, SMEA presented a report that identified challenges, analyzed the draft domestic commerce policy, and suggested reforms and recommendations. The report made specific recommendations for the agribusiness and ICT sectors.

With a coherent Sindh domestic commerce policy as proposed, the domestic markets will become more efficient in intra-Sindh, interprovincial, and international trade, with benefits for provincial SMEs such as the Karachi-based GreenO Corporation (see success story, next page). The goal is to reduce the development gap between Sindh's large and secondary cities. Improved policy attention, public investment in soft and hard domestic commerce infrastructure, and the support of better integrated markets are expected to increase the returns to on-farm, off-farm, and non-farm activities. With strong political buy-in, the Sindh domestic commerce policy would usher in a new pro-business environment, unlocking the entrepreneurial potential of the people of Sindh, with far-reaching positive socioeconomic impact. In May 2022, the Sindh Industries and Commerce Department expressed its desire to approve the draft policy and submitted SMEA's recommendations to the Sindh Planning and Development Board for further scrutiny.



### **IMPROVING THE ENABLING ENVIRONMENT FOR AGRIBUSINESSES IN SINDH**

GreenO is one of Pakistan's leading fresh juice companies. The business offers more than 50 premium juice mixes, including a cold-press product line. When GreenO initially started expanding to new markets, the biggest challenge was perishability of its product along the supply chain. Another challenge was the manual washing and processing process used in its warehouse. With a grant from USAID, GreenO procured and installed international-standard agricultural product washing and processing units, which considerably improved GreenO's process efficiency and quality. The business also acquired many international certifications, which enabled GreenO to expand its market share and provide processed fruits and vegetables to local and international markets. As a result, GreenO doubled the number of its employees to 400. Employees benefit from company-provided skills development and training, which in turn improves customer service. As GreenO's revenue grows, its demand for agricultural produce also grows, contributing to agribusiness sector growth in Sindh and increasing Pakistan's exports.





*Assistance to the Sindh Investment Department (SID).* The government of Sindh has prioritized investment mobilization as a key driver for economic growth, necessary to improve self-reliance, develop value-added exports, build skills, and enhance employment. To serve this purpose, SID engaged SMEA to develop a policy framework for investment mobilization. SMEA analyzed the impediments to investment in Sindh from the institutional, policy and regulatory perspectives. The team's report recommended financial, fiscal, and regulatory incentives that target specific value chain actors, especially SMEs. The secretary of planning and development and his team concurred with SMEA's findings. At the secretary's request, SMEA worked with SID to redesign its institutional structure based on best practices for investment promotion agencies. Considering the functions, structures, staff, and talent required, SMEA proposed a structure to enable and equip the department to implement the proposed policy. SMEA suggested that department focus on key areas such as trade and investment facilitation, coordination with government counterparts, and efforts to improve the business environment. Moreover, separate entities such as Sindh Enterprise Development Fund, Sindh Economic Zones Management Company, and Doing Business Reforms Implementation Unit should all function under SID's management and supervision. To engage the private sector, SMEA recommended forming an advisory council of 35 private sector representatives. SID noted SMEA's recommendations and expressed interest in taking the necessary steps for implementation.

*Diagnostic study for restructuring the Sindh Small Industries Corporation (SSIC).* SMEA carried out an institutional assessment of the SSIC to develop actionable recommendations for reform to enable the corporation to promote SMEs in the province. Based on consultations with the government, SSIC management and staff, and site allottees; site visits; and analysis of available data, SMEA prepared a report on the SSIC highlighting relevant issues. These included weak linkages with SMEs and other organizations, lack of strategic direction, inadequate data collection and management, and poor recovery of dues. The report suggested reorienting SSIC toward SMEs, phasing out SSIC from real estate management, and rationalizing SSIC staffing based on a revised mandate. Further, the BEE team recommended establishing corporate governance principles for SSIC, including active participation of the private sector on the board. SMEA outlined measures that SSIC should take in the short, medium, and long term to overhaul the organization. The secretary of planning and development and SSIC management used the recommendations to inform the establishment of SME industrial units across Sindh to provide infrastructure for enterprises and create job opportunities.

*Review of the alternative dispute resolution (ADR) system.* The ability to make and enforce contracts and resolve disputes is essential to an enabling business environment. Good enforcement procedures reduce uncertainty by assuring businesses that local courts will uphold their contractual rights. Economic and social progress cannot be achieved without respect for the rule of law and protection of rights. In Sindh, procedures for enforcing commercial transactions and resolving disputes are bureaucratic and cumbersome. SMEA found an extensive judicial backlog and absence of a robust framework for settling disputes. In response, the BEE team reviewed the state of the ADR system in Sindh. Given the complex socioeconomic factors and political economy, SMEA proposed a flexible and responsive ADR mechanism to meet the parties' needs and reduce the cost of contract enforcement. This mechanism

would make contract enforcement more effective, promote better regulation of the local economy, and boost local business and external investor confidence. SMEA also proposed that Sindh develop a full-fledged and forward-looking ADR law. The law should cover ADR regulation, capacity development, standardization, process flow, parameters of conduct, and service provision benchmarks, in line with the latest international thinking. SMEA recommended that the Sindh government review and adapt the ADR law SMEA developed for the newly merged districts (NMDs) — the draft Merged Districts Alternative Dispute Resolution Act 2020 — to suit the conditions and legal infrastructure in Sindh. SMEA shared the final report with Sindh’s special secretary of planning and development.

## **BUILDING A BUSINESS ENABLING ENVIRONMENT IN KHYBER PAKHTUNKHWA**

*Digital policy reform.* At the request of the KP Information Technology Board, SMEA reviewed the KP Digital Policy 2018-2023 to measure its impact and propose additional interventions to meet its desired outcomes. SMEA hired an expert who conducted a literature review, compared KP’s digital policy with those of other provincial and federal governments, and held key informant interviews and focus group discussions with public and private stakeholders. The resulting report recommended improvements to the digital policy. First, all government departments should adopt cloud computing as the preferred technology for internal administration and for delivery of government services. Second, each department should allocate a budget for ICT and local content creation to develop interfaces in local and regional languages. In response to SMEA’s recommendations, the KP Information Technology Board implemented a core suggestion relating to people with disabilities as part of the Khuddar Initiative, a market-based training initiative to provide 800 people with disabilities with employable digital skills.

*Review of KP investment policy.* The KP Planning and Development Department engaged SMEA to review its investment policy and recommend improvements to encourage domestic and foreign investment in the region. SMEA identified areas for reform such as diagnostics that cover economic, social, and environmental factors for sector selection; design principles for investment incentives; improvement of the policy’s overall value proposition; institutional reforms in complementary areas; embedding transparency, predictability, and consistency; a reassessment of the need for an investment law; and alignment of the investment policy with the 2016 industrial policy. The department acknowledged SMEA’s work and indicated that it provides a strong base for developing a robust investment policy framework and facilitating investments within the province.

*Access to finance.* The KP Finance Department engaged SMEA to develop an access to finance strategy for distressed businesses in KP. Under this strategy, the KP government would establish a PKR 500 million (\$2.3 million) fund to address the financial needs of SMEs in the province. SMEA’s experts carried out research, a literature review, and stakeholder consultations to develop a report. The report outlined the core elements and overall structure of the access to finance strategy, as well as the proposed fund’s method of operation. Based on a comprehensive analysis of market supply and demand, the report shortlisted the following six sectors for financial intervention: horticulture, Dhakki dates, dairy and livestock, marble and granite, tourism, and ICT. Further, SMEA experts proposed the specialized investment vehicle (SIV) model as the best model for this fund, based on an analysis of local



and international SME support models. The proposed SIV would be established as a nonprofit organization, run by a professional fund management team from the private sector, and overseen by an independent board of directors. The SIV would invest in startups, provide grants and infrastructure support for research and development, and finance SMEs through partnerships with financial institutions. The KP Finance Department acknowledged SMEA's technical assistance.

*Developing economic regulatory frameworks for the NMDs.* In parallel to the access to finance strategy for the province, SMEA supported the KP Board of Investment and Trade in developing a customized economic regulatory framework for the NMDs. The framework aims to support and strengthen business activity in the NMDs and attract new investments for economic growth and job creation. SMEA conducted a rapid assessment of NMDs to explore potential policy, regulatory, and institutional reforms and identify economic sectors with potential for SME-led growth. SMEA then developed an economic regulatory framework for the NMDs, with specific consideration given to regional sociocultural and socioeconomic norms. The framework proposes steps to improve the ease of doing business, along with new rules to make partnerships more effective, accessible, and attractive. SMEA also provided the KP Board of Investment and Trade with 11 key recommendations to improve BEE for SMEs. The recommendations highlighted the need for safeguards for women and other excluded groups, provision of basic services to build trust between government and citizens, and credit for small businesses.

*Diagnostic study for restructuring the KP Small Industries Development Board (SIDB).* In response to a request from the KP Planning and Development Department, SMEA carried out a diagnostic study of the SIDB and proposed recommendations to enhance its ability to promote SMEs in the province. The board is responsible for setting up industrial estates and promoting SMEs in the province. SMEA analyzed the board's mandate, legal framework, organizational structure, and operations. The team reviewed documents and data, engaged with stakeholders within SIDB and from the public and private sectors, and visited industrial estates. Subsequently, SMEA developed a roadmap for restructuring the board; reforming its mandate and its administrative, operational, and outreach activities; amending the governing act; and improving estate management. The institutional review aimed to empower the SIDB by incorporating appropriate private sector representation on its board to transform it into a forward-looking, private sector-driven institution with improved capacity to support SMEs. SIDB expressed its willingness to implement SMEA's recommendations.

*Institutional capacity building to attract PSI.* SMEA worked with the KP PPP Support Unit to refine the rules and regulations drafted under the new KP PPP Act of 2020. In addition, SMEA conducted a rapid institutional review of the support unit. The intervention aimed to overcome legal and institutional bottlenecks in the PPP regime and contribute to creating a conducive business environment in the province. Following a review of the existing PPP regime in KP, SMEA proposed policy changes in line with national and international best practices. It proposed amendments in the KP PPP Act 2020 to enhance participation of SMEs, especially in the tourism and agribusiness sectors, with an emphasis on reviving rural economies. Through a comparative analysis of the KP, Sindh, and Punjab PPP regimes, SMEA presented lessons from successful models across Pakistan for the KP PPP Support Unit to

consider. The KP PPP Support Unit acknowledged SMEA's insights. As a result, the support unit now has increased capacity to facilitate PPPs in KP, with the goal of enabling it to attract PSI.

*Minerals sector reform.* SMEA reviewed legislation and supported institutional restructuring in the KP minerals sector, which has huge potential to generate incomes, create jobs, and attract PSI. At the outset, SMEA held focus group discussions with stakeholders from the public and private sector and academia to identify policy, regulatory, and institutional bottlenecks hampering investment in the sector. Informed by these discussions and a literature review, SMEA's consultants identified key issues. First, the KP Mines and Minerals Governance Act 2017 (amended in 2019) was incomplete, as it neither elaborated time-based licensing nor discussed the implementation mechanism regarding the act. Second, the lack of intergovernmental coordination, especially among the KP Minerals Development; KP Forestry, Environment, and Wildlife Department; the KP Environmental Protection Agency; and other government departments undermined local and international investor confidence, thus hampering investment in the minerals sector. As a result, the KP government relied on the under-capacitated private titleholders to generate revenue from KP mines and minerals.

In June 2021, SMEA facilitated a roundtable for public and private stakeholders to discuss market entry, licensing processes, investments, surface rights, technical quality, and mining as an economic catalyst. Considering this discussion, research, and international best practices, SMEA developed and presented proposals to stakeholders in a workshop in August 2021. At the workshop, participants raised the issue of guidelines for determining surface rents. In response, SMEA developed proposals for criteria to determine surface rents for different mineral groups. The KP Minerals Development Department officially acknowledged SMEA's proposals.

*Tourism sector.* SMEA worked closely with the Department of Tourism, Sports, Culture, Youth Affairs, Archaeology, and Museums to review the 2019 KP Tourism Act. Subsequently, SMEA proposed an optimal organizational structure for the KP Culture and Tourism Authority. Currently, the public sector dominates KP's tourism sector. Few initiatives have attracted large-scale PSI and foreign investors with modern management, capital, and technical know-how. With more PSI expected in future, this intervention aimed to design the legal and institutional framework necessary to enforce laws, and to develop and grow the tourism industry. Informed by an institutional advisory brief for the newly created KP Culture and Tourism Authority, stakeholder consultation, and a review of international best practices for tourism sector management and existing legislation, SMEA proposed that the department:

- Assess the impact of the act on the tourism department, as well as other departments (e.g., environment, forest, mines and minerals) and develop a comprehensive plan for restructuring.
- Restrict the role of the KP Culture and Tourism Authority to the regulation and development of tourism rather than doing business in tourism.
- Review human resources.
- Clarify the role and functions of special purpose authorities.
- Revise the act to cater for SMEs in the tourism sector to ensure local businesses benefit.

SMEA's report included an action plan and feasibility analysis to help the government implement the proposed reforms. The department acknowledged SMEA's proposals and highlighted their usefulness in promoting economic growth and tourism sector in the province.

## **BUILDING A BUSINESS ENABLING ENVIRONMENT IN BALOCHISTAN**

*Promoting investment in key economic growth sectors.* Based on a request from the Planning and Development Department and the Balochistan Board of Investment and Trade, SMEA developed a framework to promote investment in key sectors. At the outset, the team conducted a diagnostic analysis and finalized a report on the regulatory, institutional, and policy factors affecting investment in the province. SMEA then developed an investment framework to improve self-reliance, develop value-added exports, build skills, and enhance employment in key economic growth sectors, including agribusiness and aquaculture, ICT, tourism, and minerals. SMEA identified constraints in the BEE, including a fragile security situation and lack of harmonized policies at the provincial level.



SMEA's BEE team met with Chief Minister of Balochistan Jam Kamal in Quetta, Balochistan. Photo credit: Chief Minister's Office

The team then recommended ways to promote investment, such as provision of basic infrastructure and a mechanism for eliminating or simplifying regulations. To provide required data to the government and investors, SMEA suggested that the board set up a one-window facilitation center and an investment data observatory. Medium-term proposals included strengthening the PPP support unit and establishing robust institutional platforms for transparent mining licenses. On the legal side, SMEA suggested adopting ADR to settle commercial disputes. SMEA's report recommended using incentives to attract investment, including establishment of a provincial enterprise development fund to provide subsidized credit for upgrades of businesses across the province. The report noted that Balochistan's aquaculture industry had unrealized potential due to poor infrastructure, lack of cold storage, limited access to markets, and obsolete catching techniques. Improved policy and increased intra-provincial and federal-provincial coordination could tap into this potential. The Balochistan Board of Investment and Trade acknowledged SMEA's support and expressed its resolve to implement the recommendations.

## **BUILDING A BUSINESS ENABLING ENVIRONMENT IN GILGIT-BALTISTAN**

*Tourism policy review.* At the request of the provincial government, SMEA reviewed Gilgit-Baltistan's tourism policy and legal framework. It then developed subsidiary legislation and an integrated tourism plan for the province. At the outset, SMEA consulted with government officials and private sector stakeholders to solicit input on the tourism policy and legal framework. The team then developed a policy framework with an improved governance and institutional setup and a robust legal and regulatory

framework clearly defining the jurisdiction of laws governing implementation of the tourism policy. To support private sector-led growth, SMEA suggested that the government establish an independent Tourism and Development Promotion Organization to interface with private sector and handle development, marketing, branding, and market-driven skills development for the sector. In addition, SMEA recommended setting up destination management organizations at the local level.

To increase PSI in the tourism sector, Gilgit-Baltistan needs to create a pipeline of potential investment opportunities. SMEA proposed that the province promote PPP projects while developing an incentive package to promote purely private investment in the tourism sector. The province should develop a tourism investment policy that addresses constraints to PSI — including real-estate costs, changes in tax policy, excessive regulation, lack of security, limited financing, and poor contract enforcement. The proposed policy should enable optimal use of public assets and land, facilitation of private investors, provision of tax guarantees, and effective ADR mechanisms. In addition, SMEA also recommended that the provincial government actively engage with the federal government, other provincial governments, and international donors to bring in resources and expertise to drive reform. It should lay the groundwork for a tourism coordination mechanism and a comprehensive resourcing plan, considering future government allocations, donor funding, and private investment requirements. The tourism department accepted SMEA's recommendations and developed an action plan based on SMEA's proposed policy. This action plan is now undergoing the approval process with the competent authority. SMEA's engagement on Gilgit-Baltistan's tourism policy complemented its support to SMEs like Mountain Story (see box).

### **IMPROVING THE ENABLING ENVIRONMENT FOR TOURISM ENTERPRISES**

Mountain Story provides eco-friendly accommodation in Aliabad in the Hunza Valley of Gilgit-Baltistan. Entrepreneur Asma Haider noticed that when hotels were built, trees were being cut down at an alarming rate. She created Mountain Story to advance tourism that operates in harmony with the local environment. Through an SME growth grant, Mountain Story built two eco-friendly, culturally aligned, and self-sustainable outposts run by the local community. Using USAID funds, the business provided hospitality training and employed women to work at the traditional Hunza homes tucked away in quiet and picturesque villages. The

business purchases local milk, homemade butter, vegetables, and home-cooked meals from local people, contributing to the local economy. As a result, tourists can experience the area's rich cultural heritage and a charming mountain retreat away from the usual tourist hubs, while the local economy benefits and Gilgit-Baltistan's tourism industry grows.



Under Sub-Objective 1.1, SMEA supported 33 policy reforms and regulations (see table).

<b>SMEA-SUPPORTED POLICY REFORMS</b>					
	<b>Policy reforms and regulations</b>	<b>Analyzed</b>	<b>Debated</b>	<b>Presented</b>	<b>Approved</b>
1	E-Commerce Policy Framework	♦		♦	
2	Investment Policy Punjab	♦	♦	♦	
3	Minor Minerals Permit Rules	♦	♦	♦	
4	Mineral Titles Governance Rules	♦	♦	♦	
5	Minerals Regulation and Enforcement Rules	♦	♦	♦	
6	Minerals Auction Rules	♦	♦	♦	
7	Study for Restructuring Sindh Small Industries Corporation	♦	♦	♦	
8	Environmental Standards for Leather Value Chain	♦	♦	♦	
9	SME Policy of Pakistan	♦	♦	♦	♦
10	Review of Mineral Sector, Khyber Pakhtunkhwa	♦	♦	♦	
11	Investment Policy Review for Khyber Pakhtunkhwa	♦	♦	♦	
12	Royalty Auction Rules-Minerals	♦	♦	♦	
13	KP Mineral Sector Governance Act 2017	♦	♦	♦	
14	Mine Safety Inspection and Regulation Act 2019	♦	♦	♦	
15	Investment Policy Framework for Sindh	♦	♦	♦	♦
16	Regulatory Framework for Fintechs and Sandbox Design	♦	♦	♦	♦
17	Organizational Structure, Model Rules, and Regulations for KP Tourism Authority	♦	♦	♦	♦
18	Business Enabling Regimes for SMEs in the NMDs	♦	♦	♦	
19	Refinement of Rules and Regulations Drafted under KP Public Private Partnership Act 2020	♦	♦	♦	
20	Framework for Encouraging and Promoting Investments in Key Economic Growth Sectors of Balochistan	♦	♦	♦	
21	Strategy Formulation for Access to Finance, KP	♦	♦	♦	
22	Capacity Building of the Sindh Enterprise Development Fund for Digital Strategy, Government of Sindh			♦	
23	Diagnostic Study for Restructuring of KP Small Industries Development Board	♦	♦	♦	
24	Domestic Commerce Policy for Government of Sindh	♦	♦	♦	
25	Gilgit-Baltistan Tourism Policy, Legal Framework, and Development of Subsidiary Rules	♦	♦	♦	
26	Khyber Pakhtunkhwa Digital Policy 2018-2023	♦	♦	♦	
27	Capacity building of the Sindh Enterprise Development Fund for Digital Strategy, Government of Sindh	♦	♦		
28	Ease of Compliance Regimes for SMEs in Pakistan	♦	♦		
29	Investment in Grains Station	♦	♦	♦	
30	Investment and Trade Promotion Strategy 2021-23 for Punjab	♦		♦	
31	New Opportunities Post-COVID-19 for Export and Domestic Market Development for SMEs in Policy and Regulatory Environment	♦	♦	♦	
32	Development of SMEDA's Business Plan for Operationalizing the SME Fund	♦	♦	♦	
33	Strengthening Punjab's Mineral Sector Act & Policies	♦	♦	♦	



## STRENGTHENING PRIVATE SECTOR AND CIVIL SOCIETY ENGAGEMENT IN POLICYMAKING

*Formation of the SME Core Group.* To understand the BEE for SMEs and map issues and challenges, SMEA formed an SME Core Group consisting of members of the business community, academics, sector experts, development practitioners, law and policy experts, and representatives of public sector organizations. The Core Group met two to three times a year to discuss SME-related issues, exchange ideas, learn from experiences, identify and build sector linkages, and collaborate to promote



The SME Core Group brought together members of the private sector and civil society to discuss issues affecting SMEs.

SMEs. Over the life of the activity, participants discussed critical crosscutting policy areas, including ease of doing business, access to finance, redefining SMEs and disaggregating them based on size, the need for policies that promote women's entrepreneurship, building trust in government and state-run institutions for service delivery, harmonization between the federal and provincial tax regimes, promotion of training opportunities, and the institutional limitations of SMEDA, given its current mandate. Core Group meetings provided SMEA's BEE team with valuable insights and inputs, which informed the revised SME Policy and other policies to make them more responsive to SME needs.

*Engagement with the private and public sector to inform policy reform.* SMEA adopted a participatory approach to all its policy reform work. The team conducted discussions with private sector and SME representatives, telephone interviews, briefing sessions, and virtual meetings to gather firsthand information and perspectives from the private sector. This informed SMEA's recommendations for numerous policies at the federal and provincial levels, as outlined below:

### **Federal**

- SME Policy reform
- Regulatory framework for fintechs and a sandbox design approach
- Feasibility study on grain silos
- BEE Index for SMEs pilot

### **KP**

- Roadmap for restructuring SIDB
- Minerals sector review and restructuring
- Tourism sector investment plan and legal framework
- Development of an economic regulatory framework for NMDs

- Digital Policy
- Access to finance strategy for businesses

## **Sindh**

- Investment policy development
- Analysis for restructuring of SSIC
- Domestic commerce policy
- Capacity building for Sindh Enterprise Development Fund to support ICT

## **Punjab**

- Investment policy framework
- Environmental standards for the leather sector
- Mines and minerals

*Engagement to inform the SME Policy.* Working closely with SMEDA, SMEA carefully revised the SME Policy to incorporate the perspectives of the public and private sector on SME development challenges and solutions. SMEA held focus group discussions and consultations with more than 200 SMEs and stakeholders in 12 cities across Pakistan. The revised policy resonates with the real concerns of SMEs and provides recommendations for the government that are private sector-responsive and business friendly.

*Engagement to inform fintech and sandbox regulations.* In February 2020, SMEA brought together 30 stakeholders, including fintechs, service providers, banks, and regulators, for a workshop to gather private sector input on proposed fintech and sandbox regulations. At the event, participants identified bottlenecks and proposed the following recommendations for the fintech ecosystem in Pakistan:

- Relax the sandbox criteria and rules for women's fintech SMEs and develop a graduation plan for new fintechs with agreed exit criteria.
- Set a sandbox timeline of three months.
- Cover all aspects of technical, product, and policy areas in the sandbox.
- Onboard relevant regulatory authorities, such as the Federal Board of Revenue and the Securities and Exchange Commission of Pakistan, among others, at the registration stage, and base assessments of fintech SMEs on individual case studies or business models to determine sandbox eligibility.

SMEA incorporated this feedback into the final report that was submitted to the State Bank of Pakistan.

*Impact of COVID-19 survey and easing of compliance regimes.* SMEA conducted a study to analyze the impact of the COVID-19 pandemic on SMEs in target sectors. SMEA carried out considerable advocacy efforts for this work through knowledge sharing and dissemination to stakeholders. The team organized a webinar with relevant federal, provincial, and private stakeholders to share findings and circulated a policy brief summarizing proposed interventions among relevant public sector entities. In the early days

of the nationwide lockdowns in response to COVID-19, SMEA held virtual meetings with private stakeholders from the target sectors. By informing the team's understanding of the economic impacts of COVID-19 on the economy as a whole and particularly on SMEs, these discussions helped identify potential policy, regulatory, and institutional mechanisms to support businesses.

## **LESSONS LEARNED**

The following section summarizes lessons learned during implementation of BEE activities, including a discussion of challenges and solutions to identified constraints.

*Online events and meetings result in greater participation.* Following the outbreak of the COVID-19 pandemic, the BEE team adopted remote mechanisms for holding events through online platforms such as Zoom and Microsoft Teams. Organizing events and meetings online resulted in greater participation, especially of government counterparts. Officials are often required to attend unscheduled meetings, transferred to other departments, or tasked with managing more than one portfolio. Thus, online sessions offer participants considerable flexibility, even enabling them to join from mobile devices or while traveling.

*Engagement of government and the private sector helps target BEE reforms.* It is important for implementers to be in sync with government priorities to generate buy-in to proposed reforms. SMEA offered experts for analysis, and to make recommendations and policy prescriptions. By demonstrating SMEA's value, government officials were more receptive to engaging with the activity. In addition, engagement of the private sector is critical. SMEA identified gaps in priority sectors to align its interventions with private sector needs. The BEE Index provided a crucial resource for SMEA and its government and private sector partners to understand the constraints to doing business in different regions of Pakistan.

*Government entities and development partners should strive to institutionalize reforms to ensure sustainability.* Decision-making in government entities is highly centralized. Given frequent changes in personnel, government entities may struggle to develop an organizationally embedded understanding and commitment to reforms. This setback may hinder timely execution and completion of activities and can completely derail the reform process. To mitigate this, at the outset, SMEA established focal points or teams within the respective departments and ensured that all stakeholders were fully aware of SMEA's assistance to foster stakeholder ownership and a long-term commitment to sustainable reform.

*A deep understanding of the local context and political economy is essential for advancing reforms.* In Balochistan, SMEA initially struggled to generate interest in reforms at the provincial government level. Informal networks and political, ethnic, and tribal affiliations underpin most decision-making in the province. Thus, the success of any initiative or engagement involving the provincial government and the private sector depends upon an ability to understand and work within these networks. At the policy level, this requires an in-depth understanding of the complex political economy of each issue. SMEA engaged a local subcontractor that understood tribal and ethnic complexities and how they influence political power and decisions to support SMEA's effective engagement with the government.

## CHAPTER 2. ENHANCING SME COMPETITIVENESS TO IMPROVE ECONOMIC PERFORMANCE

### CONTEXT AND CHALLENGES

Ninety-eight percent of Pakistan's businesses are SMEs. However, SMEs struggle to achieve competitiveness due to a severe energy crisis, outdated production and management practices, lack of technological readiness and digitalization, limited access to markets and finance, and low economic participation by women and youth. Most SMEs function informally and need support to improve their financial and operational performance.

Despite the country's large market size, the World Economic Forum's Global Competitiveness Report 2015-2016 ranked Pakistan 126<sup>th</sup> in competitiveness, below its South Asian neighbors, including India and Bangladesh. GDP growth has not resulted in growth at the SME level. During SMEA's implementation, the onset of the COVID-19 pandemic and subsequent supply chain and market disruptions had severe impacts on the global economy and individual SMEs.

At SMEA's inception, SMEs had myriad sector-specific needs. In the target sectors and for women's businesses across all sectors, SMEs needed BDS to build their businesses and strengthen their capacity to compete. Firms needed technical assistance to improve process efficiency, enhance marketing skills, and meet domestic or international standards for quality, compliance, and safety.

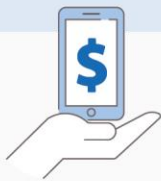
Outdated technology and lack of digitalization stymied innovation, making it difficult for SMEs to develop and succeed. SMEs lacked access to new technologies from trustworthy providers, and ICT sector SMEs lacked support services, access to finance, and skilled workers to expand their businesses. In the target sectors, SMEs were using ICT sparingly or not at all. ICT providers tended to cater their efforts and services to large business clients, so SMEs were often unable to integrate technology into their business processes due to lack of experience with these tools, accessibility, or relevance to specific needs. These challenges were particularly acute for women entrepreneurs and SMEs in rural areas with limited access to technology and resources. Firms needed training and software to adopt innovative technology for improved management systems and business growth analysis. SMEs needed e-commerce and web platforms to access new market segments and customers.

To further expand access to markets, SMEs needed global and domestic networking opportunities; training in digital media marketing; and assistance in obtaining quality, compliance, and food safety certifications. Financial institutions needed technical assistance to develop custom financial products for SMEs, while SMEs needed improved financial literacy and knowledge of application procedures.

Women's businesses faced specific constraints, including isolation; lack of access to quality education due to gender, geography, or income; structural gaps in access to finance and digital technologies; inequity due to exploitation by middlemen; and limited mobility due to social norms.

# By the Numbers

Enhancing SME Competitiveness to Improve Economic Performance



839

**SMEs** reporting use of electronic payment methods as a result of technological readiness activities



13,780

**full-time equivalent jobs** created, including **3,892** full-time jobs for women



6,320

**people** received skills development and training



6,030

**SMEs** supported to enhance their competitiveness



43%

**increase in productivity** of activity-assisted SMEs



\$51.5

**million private sector investment** leveraged



1,864

**SMEs** applying new technologies or management practices as a result of business development activities



90%

**increase in value of incremental sales** attributed to SMEA



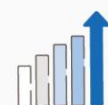
\$158

**million increased sales** as a result of technical and material assistance to SMEs



\$74

**million increased exports** as a result of support to SMEs to access new markets



75%

**of SMEA-assisted SMEs** with improved financial worthiness



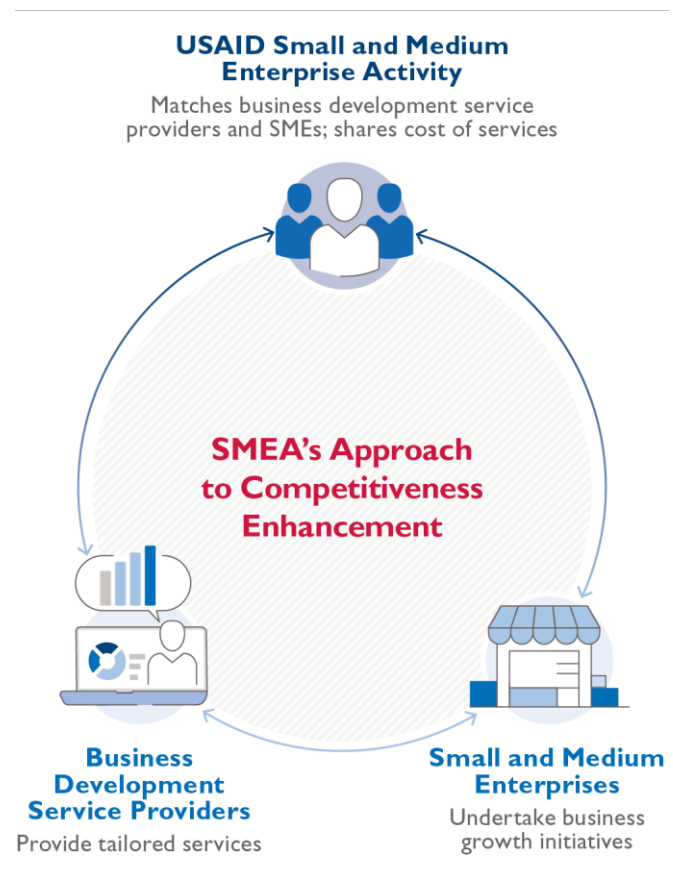
## APPROACH

USAID selected six target sectors — agribusiness, hospitality, ICT, light engineering, logistics and packaging, and textiles — based on the potential they offered in creating jobs and promoting broad-based economic growth, the degree of SME presence and opportunities for growth, and the professional opportunities and growth potential for women and young entrepreneurs. At the outset of the activity, SMEA analyzed the target sectors to understand the demand side of what SMEs needed to improve competitiveness in order to set up a menu of BDS and training services to be provided through SMEA. To contribute to the achievement of Sub-Objective 2.5 (see Results Framework in Annex I, Monitoring, Evaluation, and Learning) and enable women to run profitable businesses, SMEA added an additional focus area: women’s businesses from all sectors.

To enhance the economic performance of enterprises in the target sectors, SMEA identified issues that impede SME growth in each sector, including specific challenges and opportunities for women’s SMEs. The team then developed a tool to assess training and BDS needs and designed custom interventions for SMEs in each sector. SMEA specifically selected BDS that would contribute to the achievement of the activity’s target indicators — especially increasing sales, exports, and PSI and creating jobs.

SMEA matched competitively selected BDSPs with SMEs. The team built the capacity of service providers to deliver targeted BDS to SMEs. To bolster SME interest in and understanding of the benefits of working with BDSPs, SMEA developed a promotion plan and launched an SME application portal and helpline where SMEs could ask questions. To overcome SME reluctance to pay for external advisors and support, SMEA provided a cost share through the Competitiveness Enhancement Fund, a pool of resources used to offset the cost of BDSP services and activity-approved training and certification programs.

SMEA’s approach emphasized empowering SMEs to adopt new technology to improve their technological readiness and innovation. SMEA organized digital media marketing training and assisted SMEs in obtaining quality and compliance certifications to access new markets.



The team also engaged with financial institutions to improve their understanding of SME needs and the accessibility of their products, meanwhile building SME awareness of financial services and creditworthiness. SMEA partnered with the private sector to train women's SMEs in digital marketing and business resilience. The following section summarizes activities and results, including highlights of accomplishments.

## **ACTIVITIES AND RESULTS**

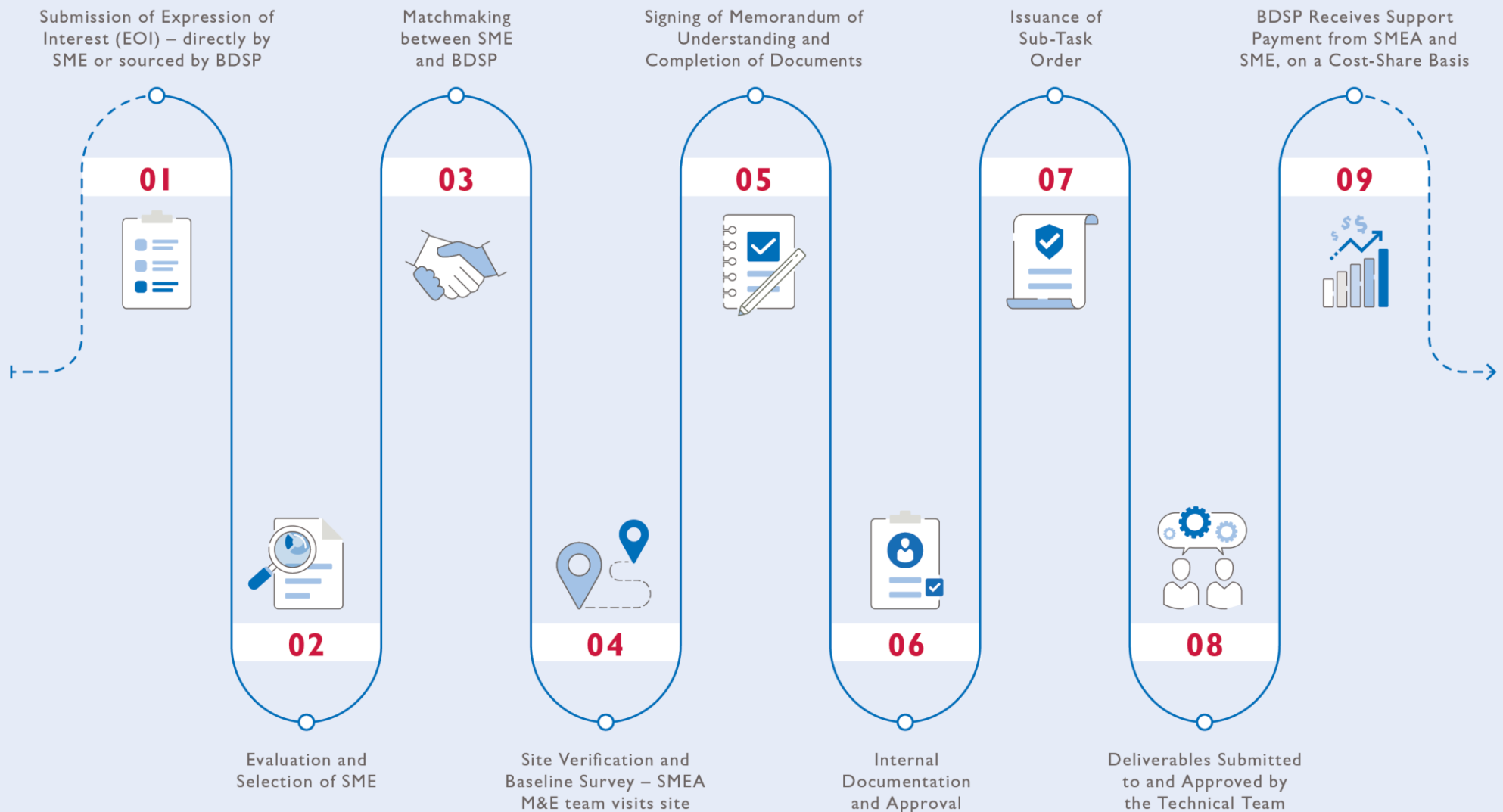
*Market-led sector analysis.* At the outset of the activity, SMEA analyzed the target sectors to understand the challenges and opportunities for SMEs in Pakistan. The sector analysis enabled the team to identify the key structural elements affecting the target sectors. The team applied the results of the analysis to design interventions to ensure a demand-driven or market-led approach.

SMEA conducted interviews and focus group discussions with 324 SMEs and 45 non-SME stakeholders in 12 cities across Pakistan to identify issues that impede SME growth. Non-SME stakeholders included associations, subject experts, and chambers of commerce. The team specifically consulted with women's businesses to understand challenges to and opportunities for increasing their competitiveness. The consultations allowed SMEA to gather critical information on productivity and competitiveness issues affecting the target sectors and introduce interventions for BDS, training, ICT support, access to finance, market identification and diversification, grants, and strengthening women's enterprises. The consultations also covered areas such as export markets and challenges and opportunities related to the China-Pakistan Economic Corridor.

*Selection of BDSPs and SMEs.* SMEA analyzed and mapped Pakistan's BDSP landscape and developed an engagement plan to develop sustainable linkages between SMEs and BDSPs. SMEA then advertised expressions of interest (EOIs) in national newspapers to solicit business proposals from consultancy firms, BDSPs, training institutes, and individual consultants to provide business development and training services to SMEs from the target sectors. Based on the EOIs received, SMEA shortlisted organizations, issued requests for proposals, and contracted BDSPs to support SMEs in target sectors. To standardize the BDS support model, SMEA incorporated an in-depth price reasonability analysis to identify and evaluate the most demanded services, prices, and level of effort offered by different BDSPs. Based on the analysis, the team established a price index to help SMEs select the best qualified service provider at the lowest price.

SMEs used one of two methods to apply for BDS support from SMEA. In response to the competitiveness enhancement team's direct outreach and marketing efforts, some SMEs completed an EOI to apply directly. In other cases, the registered BDSPs supported SMEs to draft the requisite EOI and gather the supporting documents to apply for BDS support. To verify and validate the information submitted, SMEA staff, including a member of the monitoring and evaluation team, conducted a site visit to each SME. The graphic on the next page explains the BDS support process in detail.

# Business Development Services Support Process

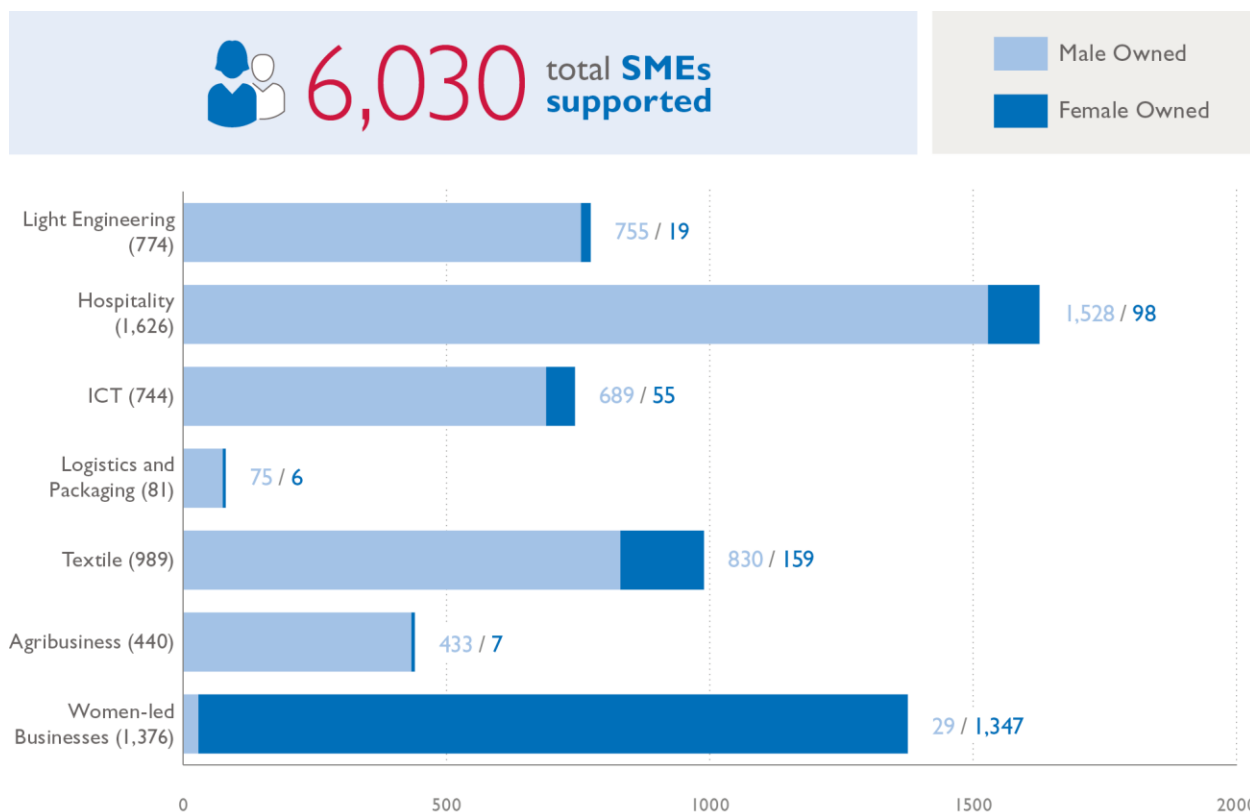


Over the life of the activity, SMEA registered more than 6,030 SMEs from target sectors to receive BDS support while contracting 45 BDSPs to offer various types of BDS support (see graphic on page 34). The activity received more than 400 EOIs from BDSPs against multiple EOIs published on Brightspyre and in leading newspapers. To increase the number of participating SMEs, SMEA advertised in multiple newspapers and held market awareness sessions throughout Pakistan. The team collaborated with sector associations, chambers, government bodies, and academia in all regions to disseminate information about the BDS program.

*Indirect impact and multiplier study.* SMEA commissioned a study to understand the indirect impact of activity interventions to enhance SME competitiveness. The research team used the Regional Input-Output Modeling System (RIMS II) to conduct a multiplier-based analysis of the comprehensive benefits realized indirectly for associated sectors in backward and forward linkages. The study estimated supply chain sales and jobs-based income effects, focusing on the indirect and induced impacts of BDS interventions in three sectors: agribusiness, ICT, and hospitality (see summary on page 71-72, Annex I).

*Gender analysis and engagement plan.* SMEA hired an expert to examine how gender relations affect the development context and BEE in Pakistan, to integrate gender across all aspects of the activity, and to design interventions to enhance women's participation in the target sectors. The gender expert analyzed the business environment in each target sector to identify factors that limit or encourage women's participation. She then consulted with women's organizations and businesses, as well as representatives from chambers of commerce, government, and academia, to understand the challenges and opportunities for women entrepreneurs. Based on these inputs, the expert developed an approach to integrate gender considerations into activity interventions. Ultimately, SMEA achieved high levels of women's participation across the activity, leading to meaningful results for women in job creation, access to finance and markets, and increased sales. Although overall, women own fewer than 7% of SMEs in Pakistan, women's businesses comprised 28.5% of SMEs that received BDS, training and grants from SMEA. SMEA created 14,710 job opportunities for women, equating to 3,892 full-time jobs for women. Through SMEA's support, 58% of assisted women's SMEs accessed financial services and 69% of assisted women's SMEs accessed new markets, resulting in a 46% increase in sales revenue.

*Adapting to COVID-19.* In 2020 and 2021, the COVID-19 pandemic and its resulting lockdowns and restrictions severely affected businesses. The pandemic led to an unprecedented disruption of commerce in most industries. Manufacturers, exporters, wholesalers, retailers, and service providers all faced immediate challenges related to health and safety, supply chain disruption, workforce, cash flow, consumer demand, and marketing. However, businesses that successfully navigated those challenges, adapted to the new normal, and evolved emerged into a vastly different ecosystem. Like these businesses, the SMEA competitiveness enhancement team also re-strategized its activities in light of the pandemic. The team promoted BDS that could help SMEs work remotely and continue to identify, engage with, and serve customers. Through SMEA's support, SMEs prioritized the use of online communication because national-scale lockdowns meant limited mobility, leading to a growth in consumer demand for a responsive digital presence.



## IMPROVING ECONOMIC PERFORMANCE

SMEA improved the economic performance of SMEs through multiple initiatives, fostering technological readiness through adoption of the latest digital tools and techniques as well as expansion into new markets. SMEA extended BDS support to a total of 6,030 SMEs (see graphic above). SMEA's geographic footprint extended across all provinces of Pakistan, with the most extensive BDS support going to SMEs in Punjab and Sindh and most of the training provided to SMEs in KP and Balochistan (see box for information on the activity's specific outreach in Balochistan).

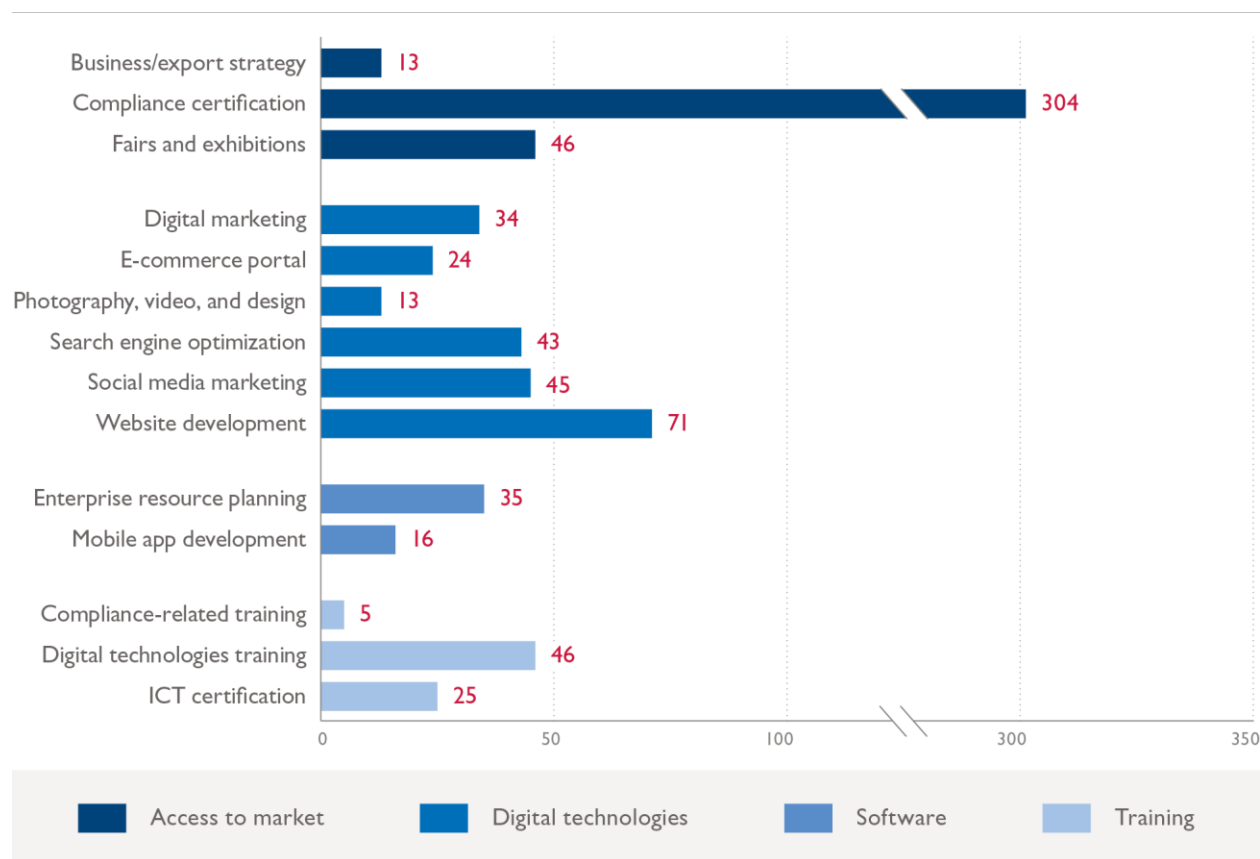
### LOCAL CAPACITY DEVELOPMENT IN BALOCHISTAN

Early in the activity, SMEA identified the need to increase outreach to SMEs in Balochistan, one of the least developed areas in Pakistan. However, response to region-specific advertisements had been weak. Instead, SMEA launched the Entrepreneurship Development Program to build the capacity of SMEs and startups in Balochistan.

Through a subcontractor, the Institute of Business Administration Karachi's Center for Executive Development (IBA Aman CED), SMEA engaged with more than 250 SMEs from target sectors in Balochistan to provide them with much-needed entrepreneurship skills. The activity held six three-day workshops in multiple districts of Balochistan. The workshops built the SME owners' business knowledge, communication skills, understanding of basic business principles and systems, and strategic thinking to leverage their business ideas for entry into existing and potential markets.



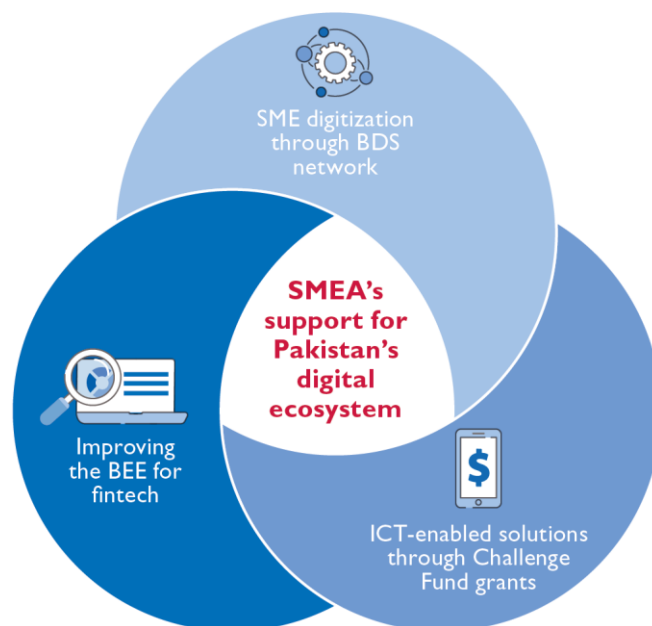
*BDS support for SMEs.* For each SME, SMEA assessed its needs, and designed customized support, then matched the SME with a BDSP that could offer support in one or more categories: digital marketing, social media marketing, website development, mobile app development, software or cloud-based services, enterprise resource planning, business and export strategy, and compliance certifications.



*Capacity building initiative for BDSPs.* To build the capacity of contracted BDSPs, SMEA hired a consulting firm to improve their project management, marketing, and general management practices, with the goal of uplifting their businesses for effective outreach, client retention, and profitability. The BDSP capacity building initiative helped contracted BDSPs expand their service offerings and optimize their business models to gear them toward service provision for smaller-sized enterprises. At the outset of the initiative, SMEA local subcontractor CyberVision carried out a gap assessment to understand BDSP capacity building needs. CyberVision then carried out six two-day capacity building workshops and conducted individual assessments to support specific BDSPs. As a result, SMEA helped service providers build their technical, marketing, and operational capacity to improve their services to SMEs and create sustainability beyond the life of the activity.

## IMPROVING TECHNOLOGICAL READINESS AND INNOVATION

To improve SMEs' technological readiness and innovation, SMEA supported interventions in two broad categories. In the digital technologies category, BDSPs provided services in website development, social media marketing, search engine optimization (SEO), digital marketing, e-commerce portal development, and photography, video, and design. In the software category, service providers offered support with enterprise resource planning systems, mobile app development, and other software or cloud-based services. BDSPs also offered training in digital marketing and digital technologies. In 2020, USAID recognized SMEA's innovation in incentivizing ICT-enabled solutions to resolve the challenge experienced by Pakistani SMEs by awarding SMEA a Digital Development Award (see box).



### INNOVATIVE APPROACHES TO DIGITALIZATION

USAID awarded SMEA a 2020 Digital Development Award (“Digi”) for its innovative approach to digitalization in Pakistan. USAID recognized SMEA for incentivizing ICT-enabled solutions to address the constraints and inequalities facing Pakistani SMEs in the digital ecosystem. Through its Challenge Fund grants, BDS provision, and support for regulatory reforms, SMEA helped SMEs adopt new technology and expand their online presence. USAID selected SMEA for the award from a pool of more than 400 global applicants.

SMEA's BDS support helped more than 1,000 SMEs identify, acquire, and serve customers through digital channels. In addition, 80% of all trained SMEs adopted new technologies or management practices. Overall, SMEA's interventions helped drive ICT and SME sector growth in Pakistan, improved the ICT enabling environment by supporting regulatory reforms, and achieved significant social impact through support to women-owned businesses and marginalized groups.

*Digital technologies.* SMEA carried out 219 interventions in the digital technologies category. As a result, supported SMEs have new websites, digital marketing tools, e-commerce portals, and multimedia content to reach new consumers and markets. Digital marketing support from a BDSP helped Maryam Sarim establish a unique brand identity for Instaenergy (see success story, next page). Beyond direct BDS support, SMEA conducted extensive capacity building sessions on digital media marketing through a BDSP, Imperial Crown Communications, for 31 SMEs from all sectors in Lahore. SMEA also offered a free-of-cost digital media marketing training session that enabled 97 SMEs from all sectors in Lahore, Karachi, Islamabad, Rawalpindi, Faisalabad, and Multan to adopt the latest digital tools and build an online presence to reach customers.

**FEATURED BDS SUPPORT CASE.** Founded in 2018, Instaenergy provides the most efficient and optimized on-grid, and hybrid solar energy solutions to residential, small, and medium commercial clients, bridging the financing gap in terms of solar energy products. The Alternative Energy Development Board-certified solar power system vendor serves clients in Karachi, Lahore, and Islamabad, with plans to expand to other urban centers.

**instaenergy**

Before receiving BDS support from SMEA, Instaenergy's founder and CEO, Maryam Sarim, handled visual design and marketing for the company. Given the demands of managing day-to-day operations, marketing was often deprioritized and carried out in an ad hoc and ineffective manner. The company's uncoordinated promotion strategy translated to a lack of distinct brand identity in the market, which led to low customer volume and a slower growth rate. Instaenergy needed professional brand identity development support, such as website management, social media strategy, and execution, to help the business in achieving growth through targeted marketing.



Founder and CEO of Instaenergy  
Maryam Sarim

When business activity slowed down during COVID-19, keeping her team motivated and sustaining the hard-earned momentum prior to the pandemic became of utmost importance to the company. After learning about SMEA through a newspaper advertisement, Maryam enlisted the activity's support to strengthen the company's marketing. Subsequently, SMEA matched Instaenergy to a BDSP, RF Studio, who helped the business establish a unique brand identity through website development and management and social media marketing activities customized to its needs. After gauging the needs and vision of the company and carrying out scope alignment activities through virtual meetings, the BDSP co-created deliverables and timelines in collaboration with the SME to execute the action plan.

The digital marketing exercise developed Instaenergy's brand and helped the company tap into a greater pipeline of leads that they later converted into loyal customers. To improve its telemarketing efforts and realize better lead conversions, Instaenergy increased its internal team's capacity. As a result, the company saw increased revenue generation with \$124,601 incremental sales in the next two business cycles. In addition, Instaenergy created six full-time jobs and continues to create indirect employment in the market. As a direct result of SMEA's Access to Finance training, Instaenergy secured a PKR 10 million loan to import solar panels.

**“My biggest satisfaction is the employment I have created for 23 people over three years. There is also indirect employment that has been generated through suppliers, vendors, and installers. This is the duty of an SME.”**

**— Maryam Sarim, founder and CEO, Instaenergy**

*Software.* SMEA carried out 51 interventions in the software category, enabling SMEs to adopt innovative software solutions, including enterprise resource planning systems and mobile applications. SMEs from the labor-intensive textile and light engineering sectors particularly benefited from basic enterprise resource planning systems, which included modules for human resources and payroll, inventory, sales, accounting, and financial management.

Following the onset of the COVID-19 pandemic, many businesses sought to adopt the latest technological tools to operate remotely. In response, SMEA launched a cloud-based assistance package through which SMEs were provided free Microsoft 365 and Google G Suite remote business solutions to ensure their operations continued smoothly. In addition to immediate short-term relief, this support promoted the digitalization of operations for SMEs that will have a long-term impact on efficiency.

*Digitization of SMEA content.* To ensure the availability of relevant capacity building content beyond the life of the activity, SMEA digitized content for the following courses: Digital Marketing and Advertising, Hotel Management Practices for Improved Customer Satisfaction and Retention, Business Management for Women-Led Businesses, and Financial Accounting and Bookkeeping. SMEA integrated the digitized content into a learning management system, which has been handed over to SMEDA to ensure sustainable management after SMEA's end. SMEs from all over Pakistan can now access and avail the four popular training courses free of cost via the learning management system, <https://learning.smeda.org>.

*Networking with tech startups, incubators, SMEs, and policymakers.* In 2018 and 2019, SMEA participated as a strategic development partner in the largest information technology-focused conference in Pakistan. Participation in the Momentum Conference offered SMEA a platform to introduce its work and USAID's support for innovation and the ICT sector to more than 300 tech startups, incubators, SMEs, and policymakers from across Pakistan.

## INCREASING ACCESS TO MARKETS

To increase SMEs' access to markets, SMEA assisted SMEs in obtaining relevant compliance certifications, participating in trade fairs and exhibitions, developing business or export strategies, and attending compliance-related training courses.

*Compliance certifications.* With SMEA support, SMEs from across Pakistan received 304 compliance certifications over the life of the activity. SMEs received process, quality, and safety certifications.<sup>2</sup> As a result, these SMEs are now certified as compliant with relevant international quality standards and can access new markets (see success story from Sapna on the next page).

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<sup>2</sup> Compliance certifications included ISO 9001, ISO 14001, ISO 22000, ISO 45001, ISO 27001, Brand Reputation through Compliance, Yu, Hazard Analysis Critical Control Point (HACCP), Business Social Compliance, Halal, and Conformité Européenne marking. Relevant certifications for the ICT sector included PCI DSS, CMMI, DevOps, GDPR, Data Governance Information Security, and artificial intelligence. Textile sector certifications included SEDEX, C-TPAT, OEKO-Tex, ISO, and WRAP.

**FEATURED BDS SUPPORT CASE.** Out of the employed women in Pakistan, 74% work in agriculture, with the majority working in the fields and few women in top management positions. In contrast, Sapna is a women-led agribusiness exporting fruits, vegetables, and pink salt. SMEA provided crucial support for Founder and CEO Noshaba Shehzad Masud and Export Manager Beenish Alvi in their ambition for Sapna to become a leading Pakistani export business in the male-dominated agribusiness sector.

Prior to SMEA, Sapna was exporting primarily in far east markets such as Malaysia, Indonesia, and Thailand. The company had developed a new product line of nonperishable agricultural products for export to a global market, culminating in the creation of a pink salt brand, Sapna Salts. However, in initial conversations with clients in the Netherlands and South Korea, Sapna's export manager learned that the company required extensive food quality and safety measures to enter the international market. Sapna applied to SMEA for BDS support and assistance acquiring food quality and safety certifications.

SMEA matched Sapna with a BDSP, Feat Technologies, to help the business secure four certifications: quality management systems, food safety management, Halal, and British Retail Corporation. The latter is an independent food safety accreditation, recognized internationally by supermarkets and large organizations as proof that high food safety standards are in place and that a food company is safe to supply.

Obtaining these certifications opened a wide array of markets for Sapna, including Canada, China, Ireland, Kuwait, the Netherlands, and South Korea. As a result, Sapna increased its incremental exports to \$77,561. The company onboarded clients from South Korea, immediately expanding its business into a lucrative new market. The certifications further enabled them to start exploring the Chinese market, where pink salt is a highly sought-after product; China imported PKR 330 million worth of Himalayan rock salt in the first half of 2020. The company is exploring trade opportunities in the North American and European markets, thanks to the British Retail Consortium certification.



Founder and CEO of Sapna  
Noshaba Shehzad Masud



**“I take pride that Sapna is a women-led business in a male-dominated sector, and I always share with others that we have come so far because of SMEA.”**

**– Noshaba Shehzad Masud, founder and CEO, Sapna**



*Trade fairs and exhibitions.* SMEA supported SMEs in the target sectors to attend local and international trade fairs. These included Pakistan Tourism Dialogue; Pakistan Travel Mart; Coke Fest, Pakistan’s biggest food and music festival; Oslo Innovation Week; and the U.S.-Pakistan Tech Exchange. At the events, SMEs showcased their product offerings in the market and built meaningful business-to-business and business-to-consumer relations.

*Amazon readiness and selling.* In 2021, Amazon added Pakistan to its sellers’ list, enabling Pakistani entrepreneurs to sell on the global e-commerce platform. To enable SMEs to take advantage of this new market, SMEA offered a one-day, free-of-cost training session on Amazon readiness and selling. SMEA trained 112 SMEs from Gujrat, Sialkot, Swat, Karachi, Lahore, Gujranwala, and Daska in collaboration with local associations and chambers of commerce. Training covered the steps required for a business to sell products on the Amazon platform and included modules on registration, logistics, costing, and other topics. As a result, these SMEs can now access a worldwide e-commerce market to increase exports and sales.

*Business or export strategies.* SMEA supported SMEs like Rove Pakistan to develop new business and marketing strategies, enabling them to access new markets (see box). SMEA also provided a cost share covering freight or logistics costs for export-orientated businesses and procured equipment for SMEs in the honey value chain and others to improve their processing and packaging capabilities, contributing to expanded exports.

### **SMEA SUPPORTS ROVE PAKISTAN TO ACCESS NEW MARKETS**

Rove Pakistan Travel and Tours is a full-service tour operator that specializes in tailored travel experiences for individuals and groups. With support from BDSP Resource Edge, Executive Director Fauzia Qazi revamped Rove Pakistan’s business model and modernized its marketing strategies. These newly acquired tools and skills enabled her to transform ideas into actionable interventions, which allowed her to scale her business and identify new target markets. Ms. Qazi realized that in addition to inbound marketing, strong potential existed for outbound marketing, so she sought support to develop targeted market linkages. To open and expand avenues of outbound tourism from Pakistan, Rove Pakistan collaborated with the Embassy of Uzbekistan to develop business, religious, and holiday tourism packages. Rove Pakistan and Resource Edge held an event attended by Uzbek Embassy representatives, diplomatic staff, and Pakistani exporters and travelers. At the event, Rove Pakistan introduced its customized tour packages to the participants and shared business rates for delegations traveling to Uzbekistan.



**“SMEA has helped me immensely in a short span of four months. The project has not only refined my business as per industry standards but has also enabled me to expand my clientele to a global scale.” – Fauzia Qazi, Executive Director, Rove Pakistan**

## INCREASING ACCESS TO FINANCE

At the outset of the activity, SMEA met with Pakistan's leading financial institutions, including the Development Credit Authority and banks in Lahore and Islamabad, to explore potential opportunities for expanding financing for SMEs. At these meetings, SMEA noted the need for support on both the demand (i.e., SME) and supply (i.e., financial service provider) sides.

SMEA's sector analysis showed that SMEs are interested in accessing financial services. In the hospitality, ICT, and textile sectors, 68%, 66%, and 49% of respondents, respectively, highlighted the need for assistance in understanding formal financial services and obtaining loans. In response, SMEA designed an initiative to assess the financial needs of SMEs and build their capacity to access formal sources of finance. This initiative addressed challenges on both the supply and demand side. On the demand side, SMEs are reluctant to pursue financial services due to limited or no motivation to pursue bank credit, lack of information, poor understanding of financial services, inability to contact the banks, and difficulty in explaining their businesses' value chain and cash flow cycles to lenders. On the supply side, financial institutions demonstrate a lack of motivation to pursue smaller clients due to risk aversion and a preference for safer investments, a lack of understanding of the sheer diversity of SMEs, high customer acquisition costs, complicated compliance and application procedures, and documentary requirements that hinder formal financial access. Further, government borrowing from the commercial banks leaves little incentive for banks to serve the SME market, and funds left from the government are lent to large-scale businesses.

To develop initiatives on the demand side, SMEA analyzed SME access to formal sources of finance and built SMEs' capacity to improve their financial worthiness. Through subcontractor Dun & Bradstreet, SMEA first surveyed 294 SMEA-supported SMEs. SMEA then carried out pre-training workshops for financial service providers, followed by SME financing workshops in Lahore, Faisalabad, Islamabad, and Peshawar for 106 SMEs. Stakeholders such as SMEDA, Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Pakistan Credit Guarantee Company, and other commercial and microfinance banks attended these sessions. Stakeholders from the financial service provider side shared their product details with the SMEs and offered their assistance to increase SMEs' access to finance. As a result, participating SMEs reported more confidence in using formal financial services to meet their credit and financing requirements.

## ENABLING WOMEN TO RUN PROFITABLE BUSINESSES

SMEA prioritized enabling women to run profitable businesses in all sectors. SMEs in the women's business category represented diverse sectors, including beauty, education, food, health care, and sustainable energy. SMEA provided BDS support 344 women's SMEs in target sectors and 1,376 women's SMEs in non-target sectors, including services in certifications, digital media marketing, SEO, branding, photography, website development, and business plan development.

*Empowering home chefs.* SMEA collaborated with Foodpanda, Pakistan’s largest food delivery network, to deliver a series of training courses on online business management, marketing, culinary and kitchen management, and food safety. The training, delivered to home chefs, aimed to economically empower home chefs and enhance food entrepreneurship in Pakistan. In 2020 during the COVID-19-related lockdowns, SMEA and Foodpanda delivered online business management and marketing training sessions on a weekly basis for more than 70 bakers, lunch service providers, and other small food businesses — primarily owned and operated by women — from across Pakistan. In 2022, SMEA and Foodpanda organized a three-day training series on culinary and kitchen management for 22 home chefs, including 19 women. The course covered key topics like cooking, baking and desserts, menu planning, packaging and temperature management for food delivery, and food safety standards. The College of Tourism and Hotel Management in Lahore assessed and certified all training participants.



SMEA and Foodpanda collaborated to organize an extensive three-day culinary and kitchen management training at the College of Tourism and Hotel Management in Lahore. Photo credit: [Press Release](#)

*Strengthening women’s entrepreneurship.* SMEA collaborated with Facebook to offer free-of-cost online learning opportunities for women entrepreneurs. Facebook-certified trainers conducted the training as part of the global #SheMeansBusiness training program implemented in Pakistan. Participants from women’s businesses from all regions of Pakistan learned how to use Facebook, WhatsApp, and Instagram to boost their online presence and sales. Under the two-day #SheMeansBusiness digital marketing training, SMEA trained more than 600 women’s businesses to use digital tools to establish a social media presence. The training covered business page setup, content creation and management, effective engagement strategies, and online safety and security. SMEA’s partnership with Facebook empowered entrepreneurs like Nida Jaffrey, founder of Nashtay Walay (see box, next page).

## **SMEA AND FACEBOOK PARTNER TO EMPOWER WOMEN ENTREPRENEURS**

Nashtay Walay is a woman-owned catering service and food brand. Entrepreneur Nida Jaffrey started the business from her home, using Facebook to advertise Nashtay Walay's services and generate orders. After attending the #SheMeansBusiness training provided by SMEA and Facebook, Ms. Jaffrey learned the value of Instagram and gained new skills in interactive marketing. She learned how to promote engagement strategically through post frequency (i.e., regularity and timing of posts), going live, and uploading video. Ms. Jaffrey noted that content creation should be interactive and targeted to a specific audience. She highlighted the use of original food images to create impact. Within a year of implementing the marketing strategy developed during training, Nashtay Walay's followers had ballooned from 8,000 to 15,000. As of October 2022, the business had more than 36,000 followers on Facebook.

SMEA conducted six pilot training sessions of Facebook's Business Resilience through Financial Education program, which aims to enhance the financial literacy of women business leaders. Conducted online on a weekly basis with materials in both English and Urdu, the course provided 110 women entrepreneurs with knowledge in financial planning and reporting, costing and pricing, developing a business plan and strategy, using digital technology, and managing crises. As result, women entrepreneurs acquired digital skills to start and grow their businesses, as well as financial education on how to sustain a business.

*Enhancing competitiveness of women entrepreneurs.* Women's businesses in KP needed skills in growth planning, identifying target markets, optimizing customer segmentation, and devising pricing strategies to maximize their outreach and revenues. In response to a request from the women chambers of commerce and industries in KP, SMEA organized a two-day training series on Business Management and Marketing for women entrepreneurs in Peshawar, Mardan, Nowshera, and Hazara. The training covered introduction to business management, customer persona building, pricing strategies, and digital marketing. SMEA tailored the training content to the needs of local women entrepreneurs in KP, who run small businesses in diverse sectors, including garments, gems, daycare, bakeries, and handicrafts.

*LIFT Pakistan.* In 2019, SMEA supported women entrepreneurs to attend LIFT Pakistan in Islamabad. The entrepreneurship conference for SMEs included pitching sessions to local and global investors, followed by a two-day exhibition and business workshops. SMEA engaged SMEs from KP, Balochistan, Sindh, Punjab, and Islamabad, which offer diverse products and services, such as artificial intelligence-based research, inclusive education, online Urdu content reading platforms, textile exports, and employment placement services for women. At the event, women entrepreneurs met with public sector stakeholders and identified corporate clients through business-to-business meetings.





SMEA supported women entrepreneurs to attend conferences, trade fairs, and events, providing opportunities for women to showcase their businesses' products and services, network with other entrepreneurs and sector experts, and gain access to new markets.

## LESSONS LEARNED

The following section summarizes lessons learned during implementation of competitiveness enhancement activities, including a discussion of challenges and solutions to identified constraints.

*Remain nimble and responsive in the face of unanticipated challenges.* Amid the COVID-19 pandemic, there were also fears of layoffs as companies struggled to maintain cash flow. With this in perspective, SMEA increased its cost share from 50% to 75% for SMEs that committed to retain all employees for the duration of BDS support. As a result, Pakistanis kept their jobs amid unprecedented economic uncertainty. SMEs continued to receive BDS support to stabilize their businesses, adapt to new modes of operating, maintain existing customers, and reach new markets.

*Manage SME expectations to facilitate inclusion of new and under-resourced enterprises.* SMEA dedicated time and resources to managing the expectations of supported SMEs. Some enterprises expected support beyond the timeline of BDS interventions. In other cases, rural SMEs lacked internet access or expertise to meet reporting requirements. To ensure inclusive programming, the SMEA team emphasized clear



and consistent communication and demonstrated a willingness to propose innovative solutions to address challenges, such as offering ideas for SMEs struggling with cash flow issues to extending flexible timelines as needed. This helped SMEs remain on track with competitiveness enhancement activities to achieve results.

*Coaching and mediation help resolve disputes between SMEs and BDSPs.* SMEs were unaccustomed to paying for BDS and working with BDSPs. In cases where SMEs delayed payments to BDSPs, SMEA intervened to resolve disputes. On one hand, SMEA would offer an extension to the SME, providing the enterprise with more time to complete the scope of work. On the other hand, SMEA would coach the BDSP on how to ensure customer satisfaction, while serving as a mediator between the BDSP and the SME. Most disputes were successfully resolved through mediation or coaching. As a result, SMEs received flexibility and a low-risk opportunity to experience the benefits of BDS support through the SMEA cost share, and BDSPs developed skills in ensuring customer satisfaction and vetting potential clients.

*Building the capacity of BDSPs contributes to their sustainability beyond the life of the activity.* Many BDSPs in Pakistan lack understanding of documentation protocols and requirements to standardize their operating procedures. SMEA trained BDSPs on how to complete documents, adhere to compliance requirements, cost their services, and adapt to the SME sector. As a result, contracted BDSPs improved their business and financial operations, gained experience working in the SME sector, and acquired skills that can improve their businesses' sustainability.

*Some competitiveness enhancement activities require another source of funds.* Some services that are important for competitiveness enhancement may not bring immediate commercial results for SMEs, such as training of SME staff. These services need to be subsidized by another source — either a combined sectoral or industrial pool of funds, another donor-funded program, or the government's Export Development Fund, which is replenished by an export levy and controlled by the Ministry of Commerce.

*Price reasonability checks ensure a fair price for SMEs receiving BDS.* Early on, SMEA identified a potential risk in the BDS support process. In cases where BDSPs sourced SME applicants for BDS support, the opportunity existed for BDSPs to inflate the price of services through under-the-table cooperation with SMEs. To mitigate this risk, SMEA modified the process to require all BDS support requests to be competed among two to three BDSPs providing similar services. The SME was then required to select the lowest cost offer or pay the difference in price.

## CHAPTER 3. UNLOCKING INNOVATION THROUGH THE CHALLENGE FUND

### CONTEXT AND CHALLENGES

Pakistan's 5 million SMEs employ more than 21 million people, constituting about 80% of the nonagricultural labor force. Revenue from SMEs comprises 40% of the country's GDP. As such, SMEs have immense potential to generate economic growth, raise living standards, and engage people in productive and rewarding work.

Before the launch of the Challenge Fund, promising SMEs wanted to introduce innovations and launch growth expansion plans but needed an incentive to take the financial risk. SMEs needed investment and mentorship to realize production efficiencies, improve financial management, upgrade technologies, and scale operations. SMEs needed resources to procure improved infrastructure and technology to reduce production costs, increase efficiencies and scale, enhance quality, and create skilled jobs.

Lack of digitalization constrained SMEs' ability to use technology to increase sales and create jobs. Many SMEs hesitated to embrace ICT due to inexperience, or the perceived or real costs involved. SMEs needed investment in software solutions, e-commerce platforms to support online payments, and digital marketing services, as well as training to use these tools. During SMEA's implementation, restrictions on movement due to the COVID-19 pandemic created an even greater need for digital tools and training to market and sell products directly to consumers, especially for women's businesses.

### APPROACH

SMEA designed the Challenge Fund to support the creation and diffusion of innovative, sustainable, and scalable business solutions to the competitiveness challenges facing Pakistani SMEs in selected sectors. The fund provided a lower-risk environment for SMEs to introduce innovations and launch growth expansion plans to become role models or service providers to other SMEs, thereby catalyzing innovation and growth in SMEs across the target sectors.

The activity awarded three types of grants:

- **Innovation grants** incentivized SMEs to address sector-specific challenges identified by SMEA.
- **SME growth grants** covered the specific costs of an SME-identified solution.
- **Scale-up grants** empowered successful innovation and SME growth grantees with the resources to scale their products.

At the outset, SMEA identified key challenges that are hampering growth in specific sectors and invited innovators to design and implement solutions. For example, innovation grants helped SMEs promote uptake of fintech innovations that could increase access to finance and e-payments (see UniKrew success story, page 11), export products and services to new markets, expand awareness of alternative

tourist destinations and routes (see PALS Outdoors story, page 49), and increase women's participation in the workforce (see Sehat Kahani story, page 56). SME growth grants helped SMEs procure new equipment to develop new product lines (see Farmers Cheese Making story, page 51) and improve production efficiency (see Sabaq story, page 52).

Scale-up grants — worth up to \$400,000 — allowed innovation and SME growth grantees that had demonstrated the ability to design, launch, market, and scale their products an opportunity to pursue further expansion plans (see Walee story, page 53 and Darewro story, page 54). SMEA prioritized the award of scale-up grants to SMEs with the greatest potential for generating sales, jobs, investment, exports, and spillover effects that directly benefited the wider SME ecosystem.

SMEA's approach tied the awarding of funds to activity performance. Grantees, along with donors, agreed to a list of achievements, or milestones, throughout the design and implementation of the grantee's solution. After completing and verifying a specific milestone deliverable, a tranche payment was made to the grantee. The Challenge Fund's ultimate goals were to create jobs, generate revenue, increase PSI, and increase exports.

To understand the long-term impact of Challenge Fund investments, and to establish a framework for estimating the activity's comprehensive impact, SMEA commissioned a study of the program's direct impact and sustainability. The research team used the net present value approach to calculate the impact of investments beyond the life of the activity (see summary on page 71, Annex I).

The following section summarizes activities and results, including highlights of accomplishments.

# By the Numbers

Unlocking Innovation Through the Challenge Fund



34,600

**recipients** of SMEA  
requests for application



4,200

**grant proposals**  
received



\$7.3

**million in grant**  
**funds** awarded



141

**total grants**  
awarded



111

**capacity building**  
**sessions** delivered to  
grantees



38

**innovation grants**  
awarded



82

**SME growth**  
**grants** awarded



21

**scale-up grants**  
awarded



\$5.7

**in PSI** generated  
for every \$1 in  
grants



\$6.1

**in incremental**  
**sales** generated for  
every \$1 in grants



3.6

**employment**  
**opportunities** generated  
for every \$1,000 in grants

## ACTIVITIES AND RESULTS

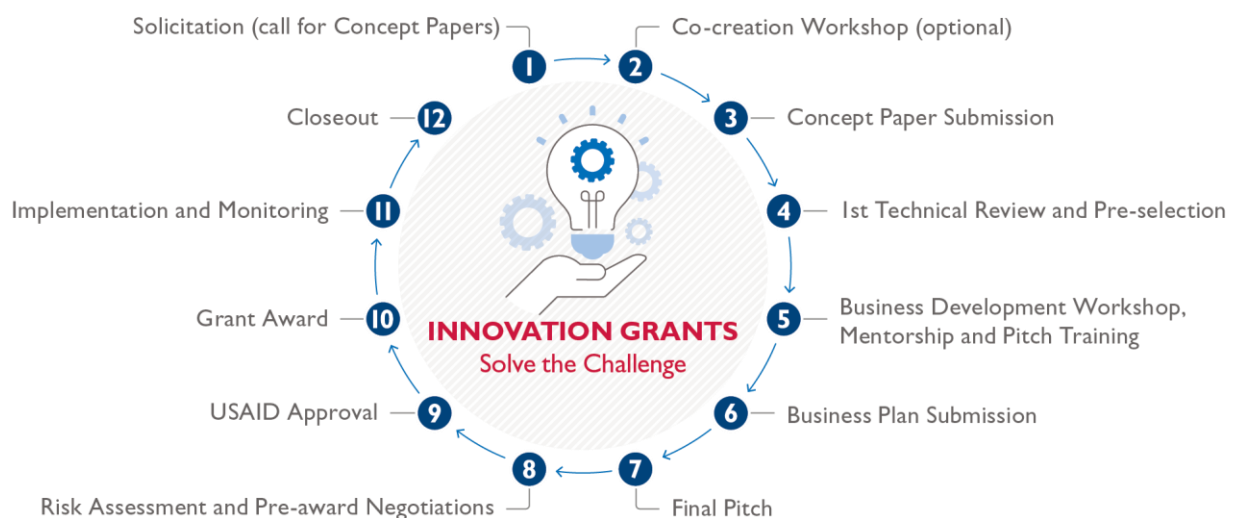
Through the Challenge Fund, SMEA supported the creation of innovative, sustainable, and scalable business solutions to the competitiveness challenges facing Pakistani SMEs. During the life of the activity, SMEA awarded 141 grants (38 innovation grants, 82 SME growth grants, and 21 scale-up grants) totaling \$7.3 million to a diverse group of SMEs across the target sectors. Grants were awarded after 12 solicitations, dissemination of 34,600 requests for applications, and conducting 111 capacity building sessions, including orientation sessions, co-creation workshops, build-a-business workshops, and pitch training sessions in major cities in Pakistan and virtually.



SMEA delivered 111 capacity building sessions to mentor and guide potential Challenge Fund applicants.

### INNOVATION GRANTS: SOLVE THE CHALLENGE

SMEA awarded innovation grants to 38 SMEs in target sectors, totaling \$1.3 million. The grant award process included co-creation workshops, concept paper submission, review and pre-selection, training and mentorship, risk assessments, and approvals.







Challenge Fund grantee Closet developed an inventory management system, upgraded its web portal and apps, and opened three physical outlets, enabling the online clothing rental company to expand its market reach and grow its revenue.

**FEATURED INNOVATION GRANTEE.** Established in 2018 by three young undergrads, Closet is Pakistan’s first online clothing rental marketplace. The business provides a safe online space for women to rent out their clothes, enabling them to earn money from home. Closet enables customers to browse, select, and rent clothing, allowing people to save money on special occasion clothing. Initially, Closet managed its inventory on a simple Google sheet. The startup lacked proper software and business management processes, and all transactions were done in cash. With a grant from USAID, Closet developed an inventory management system to streamline its operations and upgraded its web portal and apps. The enterprise has since expanded its business significantly, opening a flagship store in Karachi and two other outlets in prime locations; an estimated 180,000 women have visited its stores to date. Closet now employs 20 people, enabling it to serve more customers and grow its revenue from \$300,000 to \$400,000 annually.

“With the grant from USAID, we streamlined our business through digitalization and use of technology. We now have an on-the-ground presence on Tariq Road in the heart of the city. Not only were we able to establish our own business, but we also provide livelihoods to others through our business.”  
 – Laiba Amir, co-founder, Closet



Challenge Fund grantee PALS Outdoors developed tourism activities in lesser-traveled areas of Pakistan.

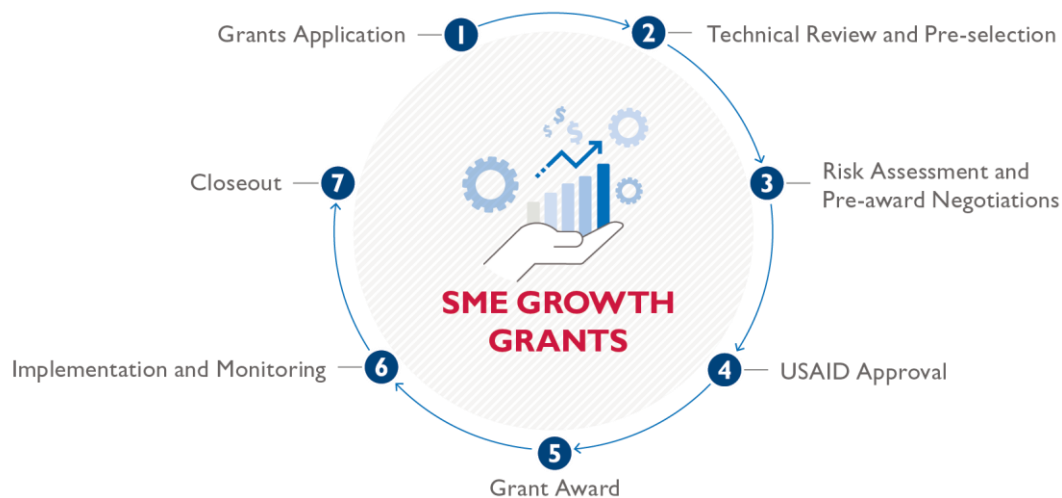
**FEATURED INNOVATION GRANTEE.** PALS Outdoors is a Karachi-based eco-friendly adventure tourism company. The business offers outdoor team building, trips and tours, corporate events, and rentals. With an innovation grant from USAID, PALS Outdoors solved the challenge of developing tourism activities in lesser-traveled areas of Pakistan — expanding its operations from the Karachi coastline to the Damb shore in Balochistan. Previously, people were unable to explore remote areas along the coast or the adjoining islands due to lack of infrastructure. To visit these places, people needed to arrange their own food, accommodation, and bathroom facilities and secure the required permits. Using USAID funds, PALS Outdoors developed the area into an eco-friendly adventure tourism site with large and comfortable tents and the necessary infrastructure to host visitors. The grant provided the resources for PALS Outdoors to move from the planning phase to implementation, enabling the business to set up the right infrastructure, hire new staff, and market its services. The business now employs about 100 full-time employees and hires services from local vendors such as cooks specializing in ethnic cuisine, boosting the local economy. Today, PALS Outdoors arranges kayaking in mangrove forests, boat rides on the open ocean for snorkeling along the reefs, and walking and trekking tours. Local and international tourists now have a new scenic location to explore along the scenic Balochistan coast, thus helping augment Pakistan’s tourism sector.

**“Without USAID’s grant, we would still be in a planning phase. The grant that we received was all that we needed to build the required infrastructure, hire the right staff, and start marketing our services.”**

**— Reza Samad, CEO, PALS Outdoors**

## SME GROWTH GRANTS

SME growth grants aimed to increase the competitiveness of selected SMEs in the target sectors by covering the specific costs of an SME-identified solution. SMEA awarded SME growth grants to 82 SMEs in target sectors, totaling \$3.1 million. The activity awarded SME growth grants after a rigorous process of orientation, technical evaluation committee meetings, pre-award risk assessments, and grant approval.



**FEATURED SME GROWTH GRANTEE.** Jessie's Burgers is a fast-food restaurant offering yummy food and fun experiences from its locations in major cities across Pakistan. Founded by young friends Yawar and Yasir, Jessie's serves burger and fries, fish and chips, refreshing drinks, and delicious desserts from branches in Islamabad, Lahore, Rawalpindi, Naran, and Nathia Gali. The restaurant founders had a vision to use technology to seamlessly automate the customer experience. With an SME growth grant, the business developed a dynamic point-of-sale software, an integrated inventory management system, a web portal, and a mobile app for food delivery tracking. In addition, Jessie's bought tablets and display screens to facilitate order-taking and coordination among its servers and kitchen staff. The new technology enabled Jessie's Burgers to streamline its operations across all branches and improve customer service. As a result, founders Yawar and Yasir realized their vision for an enhanced customer experience at Jessie's, complementing the restaurants stimulating pop art décor, quality eclectic tunes, and good vibes.



With USAID support, Jessie's Burgers developed a dynamic point-of-sale software and other systems to streamline its operations.





SME growth grantee Farmers Cheese Making expanded its product line to more than 60 products.

#### **FEATURED SME GROWTH GRANTEE.** Farmers

Cheese Making is a Pakistani enterprise that produces handcrafted cheese products. To introduce the brand at the national level, the business needed resources to scale its production. It needed specialized machines and equipment to process milk, and to convert cheese into cream cheese and sauces. Through a USAID SME growth grant, Farmers Cheese Making purchased a cold store to keep the product at the required temperature and machines to cook cream cheese and process curds. As a result, the business has expanded its product line to more than 60 products and is now producing and selling high-quality cream cheese. The expansion created 15 jobs, including skilled positions in marketing and supply management. Indirectly, Farmers Cheese Making has also created jobs in the bakeries that use its product. Today, the cheese is distributed across the country for use in bakeries and homes. Farmers Cheese Making is a well-recognized brand that is highly in demand in the local market.

#### **UNEXPECTED BENEFITS OF ENVIRONMENTAL COMPLIANCE**

Whey management is a challenging aspect of cheese-making. As part of the grant award process, SMEA's environmental expert suggested that Farmers Cheese Making reduce negative environmental impacts by changing its whey disposal practices. In response, Farmers Cheese Making decided to use the previously discarded byproduct to develop a new product line — whey protein powder — achieving environmental compliance while tapping into a new and growing market.



Sabaq founder Hassan Bin Rizwan works with an animation artist in the company's studio, scaled with USAID support.

## FEATURED SME GROWTH

**GRANTEE.** Sabaq is an education technology and content company that produces culturally and linguistically relevant content for children from preschool to grade 5. Sabaq's educational content and resources helped 400,000 students in 2,000 schools improve their learning outcomes. When schools

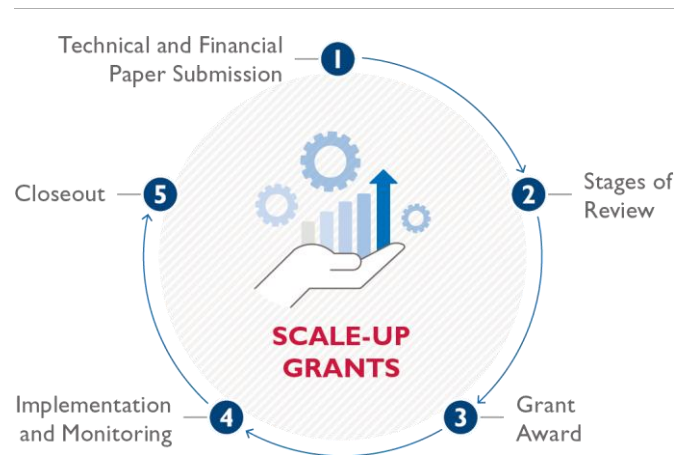


were closed due to COVID-19, Sabaq collaborated with other edtech companies and the federal government to launch an educational TV channel, reaching 6 million students. According to an independent impact study carried out in 2017-2018, students using Sabaq's learning app in educational centers in Lahore, Karachi, and Mirpurkhas scored significantly higher in tests of literacy and numeracy compared to a control group. However, Sabaq faced challenges in reaching its target number of schools. The business badly needed to expand its hardware capacity to produce content at a faster rate. Through a USAID grant, Sabaq procured high-tech animation computers allowing it to improve its efficiency significantly and enhancing the capacity of artists to produce content on par with international standards. As a result, Sabaq gained the capacity to serve global clients and expanded its business. In two years, Sabaq's animation services division grew by 400%, allowing the business to develop more educational content for the local market.



## SCALE-UP GRANTS

SMEA awarded 21 scale-up grants to SMEs that had received innovation or growth grants from the activity and had demonstrated the ability to design, launch, market, and scale their products. The award process for scale-up grants included submission of technical and financial papers, stages of review, grant approvals, and awards.



**FEATURED SCALE-UP GRANTEE.** In 2019, Techlets used USAID grant funds to launch Walee — an everyday trade app that helps online businesses and digital influencers promote content and sell products and services to their followers. Launched in the months before the onset of the COVID-19 pandemic, Walee came online just as an emerging pool of affiliates and influencers were available and eager to learn how to monetize online content creation. To support this nascent community, Walee conducted online training sessions and bootcamps for influencers and developed a web series called The Power of Influence for aspiring influencers to learn from successful creators. The Walee app sparked interest from a range of companies, from small businesses to international brands looking to connect with audiences using influencer marketing, while offering income-earning opportunities to a diverse mix of influencers. Through USAID’s timely financial support, Techlets developed an app that offers a range of benefits — from innovation and market connectivity to economic activity and job creation, especially for women and youth. Today, Techlets’ Walee app serves more than 100,000 businesses and 500,000 influencers, enabling brands and SMEs to tap into the growing global influencer market, which is projected to reach \$34.6 billion by 2027.



Walee Co-founder Samima Seth



With a USAID grant, Darewro developed a web platform to reach new customers and information management systems to streamline the company's financial and human resource management. As a result, the business solidified its place as the largest motorbike delivery service in KP.

**FEATURED SCALE-UP GRANTEE.** Started by young entrepreneurs from KP, Darewro Delivery Services is a motorbike delivery service in Peshawar. Despite being the first delivery-on-demand service in the area, the business faced many competitors and had to constantly adapt to a challenging environment. During the COVID-19 pandemic, Darewro was well positioned to serve the community. The business worked with the district administration to deliver food to families. With support from USAID growth and scale-up grants, Darewro developed its web platform and back-end architecture, financial management information system, and human resource information system. The business expanded its operations by 38% in a single year, reaching all over Peshawar and its adjoining NMDs — enabling it to solidify its place as the largest motorbike delivery service in KP. Leveraging this success, Darewro won \$220,000 from the Microsoft for Startups business accelerator program. It plans to use these funds to further scale its business to expand into the NMDs.

**“With USAID’s support, we developed an entire infrastructure, including the customer app, back-end architecture, financial management information system, and human resource information system. These were our ambitious targets, and USAID helped us achieve them.”**  
— Darewro Delivery Services





With a USAID grant, Aayz International developed a composite material for producing various types of sporting equipment.

**FEATURED SCALE-UP GRANTEE.** Aayz International is a sporting goods manufacturing company that started producing wood composite field hockey sticks in Sialkot in 1974 under the brand name Dita. With USAID support, Aayz International developed continuous fiber-reinforced thermoplastic, a composite material used to make an array of items including shin guards, paddle rackets, field hockey sticks, skateboards, and surfboards. By producing the plastic in-house, Aayz International developed products with a longer shelf life, eliminated wastage, and reduced finishing costs. With a USAID scale-up grant, Aayz International introduced the thermoplastic product to multiple international brands, developed new product lines and designs, and validated sale segments. As a result, Aayz pushed the boundaries of innovation in sporting goods manufacturing and design and opened doors to new markets.



With a USAID grant, Aayz International developed a composite material for producing sporting goods like field hockey sticks.



Challenge Fund grantee Sehat Kahani upgraded its health technology platform and developed a comprehensive clinical module. As a result, female patients can connect with female doctors online via local e-health centers, expanding health care for women living in remote areas.

**FEATURED GRANTEE.** Sehat Kahani is a women's telehealth enterprise. The company's one-window digital healthcare platform connects patients to a network of highly qualified doctors for online chat, audio- and video-enabled appointments, and at-home pharmacy services. Through an SME growth grant, Sehat Kahani upgraded its health technology platform and developed a comprehensive clinical module. As a result, the group now meets the needs of doctors, frontline health workers, and patients. Women who previously had to walk long distances to receive care can now visit a local e-health center and connect with an online doctor to address their concerns. Furthermore, women physicians whose families often request that they leave their careers to marry and have children can continue to practice telemedicine from their hometowns.

**“Sehat Kahani is creating this all-female provider network that connects these home-based doctors to patients in underserved areas ... that's the beauty of the internet, that's the beauty of connectivity, and that's the beauty of virtual healthcare.”**

**— Sara Saeed Khurram, co-founder and CEO, Sehat Kahani**





Fouzia Bano, an artisan from Gilgit-Baltistan, participates in a training organized by Vceela. The Challenge Fund grantee developed an e-commerce platform that connects artisans from smaller cities and villages directly with global markets.

**FEATURED GRANTEE.** Pakistani handicraft products are predominantly produced by skilled women artisans who often do not receive their fair share of revenue. Due to an absence of direct linkages between artisans and end-buyers, artisans traditionally sell their products through middlemen, foregoing up to 80% of their profits. Vceela developed an e-commerce platform to connect artisans from smaller cities and villages directly to the market. Through an innovation grant, Vceela integrated a payment solution into their platform, developed an online web portal that serves as a reliable directory of artisans and a complete repository for data, and developed Android and iOS applications. The new technology enables artisans, particularly women, to market and sell their crafts directly to consumers. This helps increase their profits and provides products to consumers at a reduced price. Vceela also organized training for artisans on ICT skills, e-commerce, packaging, quality assurance, and logistics. With a scale-up grant, Vceela develop a business-to-business model with additional payment gateways, allowing registered artisans to grow their market share and exports. The SME now has the capacity to reach out to promising craft clusters across Pakistan, including in the NMDs.

**“It has been a great learning experience. We had divided the country into 22 craft clusters and with the support of USAID SMEA, we have covered seven clusters during five months of project implementation.”**

**– Akeel Khalid, CEO, Vceela**



**FEATURED GRANTEE.** Edkasa is a women’s education technology company that provides video lectures, tutoring, and exam preparation resources via a virtual learning platform. Edkasa’s mission is to help students achieve top marks in their exams by providing world-class online learning resources. The company used a growth grant to scale its operations to 11 cities across Pakistan, serving more than 500 customers. Through the grant, Edkasa created 30 new jobs, the majority of which are filled by women who facilitate girls’ education in centers across the country.



Edkasa helps students get top marks in their board exams by providing a world-class online learning experience.

**“Working with the SMEA Challenge Fund ... has steered Edkasa to methodically achieving its business goals for the near future.”**  
**– Annum Sadiq, educator and co-founder, Edkasa**

## PARTNERSHIPS AND PROMOTION

SMEA promoted the Challenge Fund grants program through numerous television and radio shows, events, and public forums. As a result, the program saw a fourfold increase in applications from 166 in the initial round to 647 in the final round, for a total of 4,200 applications received throughout the activity. By partnering with local companies, organizations, and platforms to expand the program’s reach, SMEA ensured a highly competitive grants program with impressive results. Highlights of SMEA’s partnerships and promotional activities are below.

*Television and film.* SMEA partnered with Neo Pakistan to provide SMEA entrepreneurs with a platform to pitch their solutions to potential investors on Pakistan’s premier technology startup reality television show, Idea Cronon Ka. The partnership offered grantees the chance to showcase innovative, sustainable, and scalable business solutions to competitiveness challenges facing Pakistani SMEs. Over the life of the activity, SMEA recorded five episodes, which aired on September 23, December 23, and December 30 in 2018 and on August 8 and September 6 in 2019. The shows featured eight SME growth



SMEA partnered with the television show *Idea Cronon Ka* to provide Challenge Fund grantees like Edkasa (pictured) with a platform to pitch their innovative ideas to investors.

grantees, including Transconomy, Lahore New Media Labs, Downtown Bistro, Edkasa, Closet, Farmers Cheese, PALS Outdoor, and Mountain Story. Episodes can be viewed on YouTube from [Season 3](#) and [Season 4](#).

In addition to showcasing grantees' successes on Idea Croron Ka, SMEA reached a wide audience through appearance on a morning show. USAID Project Management Specialist Afsheen Shakoor, SMEA Chief of Party Farrukh Khan, Dr. Sara Saeed from grantee Sehat Kahani, and CEO Zillay Mariam from grantee Trash Masti appeared on the Pakistan Television show World This Morning on September 27, 2019, to discuss the Challenge Fund's success and impact. The recording can be viewed on [YouTube](#).

In May 2022, USAID organized a limited screening of the Burka Avenger animated movie, produced by grantee Unicorn Black. Based on the award-winning animated Burka Avenger TV series, the film tells the story of a Pakistani female superhero who promotes gender equity and women's empowerment. As a result of the USAID grant, Unicorn Black could use cutting-edge production technologies for the first time in Pakistan, allowing the grantee to work more cost-effectively, create more than 250 highly skilled jobs, and eventually generate up to \$65 million in projected revenue over the first two years of release. The global release of this animation movie will help open avenues for the untapped sector of local animation and serve as a stepping stone for Pakistan to become an international leader in animation.

*Events.* In April 2019, innovation grantee Franchise Pakistan organized the 4th Franchise Show in Lahore. More than 40 Pakistani businesses showcased franchising opportunities for entrepreneurs and investors. USAID Punjab's Provincial Director Kevin Sharp inaugurated the show, which provided an extensive platform for SMEs to build relationships and gain business expertise.

In July 2019, innovation grantee Techlets organized the first Influencers of Pakistan Forum in Islamabad. Attended by 165 people, the event provided a platform for digital influencers, content creators, and bloggers to network with relevant industry stakeholders, including the Ministry of Information Technology and Telecommunication, Islamabad Chamber of Commerce and Industry, business owners, marketing experts, and e-commerce players.



Techlets organized the first-ever Influencers of Pakistan Forum in July 2019, attended by 165 digital influencers, content creators, bloggers, and private and public stakeholders in Islamabad.

In July 2022, Hashoo Foundation and Change Mechanics organized WECON 22 Mumkin Hai, a women's entrepreneurship conference that connected women entrepreneurs and stakeholders for meaningful discussion and policy dialogue. Dr. Sara Saeed from Challenge Fund grantee Sehat Kahani facilitated a roundtable session to discuss how to overcome the challenges women entrepreneurs face when building

a startup or running a business. The event offered an opportunity for collaboration to create a conducive environment for women's businesses in Pakistan.

## LESSONS LEARNED

The following section summarizes lessons learned during implementation of the Challenge Fund, including a discussion of challenges faced during implementation and solutions to identified constraints.

*Orientation sessions and co-creation workshops resulted in improved grant applications.* To facilitate potential Challenge Fund grant applicants, SMEA organized multiple orientation sessions with flexible timing and dates in major cities of Pakistan. Innovation grant applicants had an opportunity to attend co-creation workshops to develop partnerships with like-minded SMEs. Shortlisted innovation grant applicants also attended business development workshops and business pitch training sessions and received up to four weeks of free mentorship by sector experts from their geographical location. The orientation sessions, workshops, and mentorship helped applicants understand the application and review process, develop improved business plans, and make better pitches to judges during the selection process. The training also helped applicants improve and present business plans to attract third-party funding. Moreover, SMEA's pre-award assessment exercise and due diligence ensured completion of required documentation, compliance with organizational policies, and competent execution of activities. SMEA unleashed grantees' out-of-the-box thinking and enhanced their capacities in proposal writing, budget development and management, recordkeeping, and reporting.

*Fixed-amount awards with grantee contribution or leveraged fund requirements lowered the risk to the donor and promoted grantee buy-in.* SMEA awarded fixed-amount awards with a fund reimbursement model. Using this type of grant encouraged grantees to manage the funds efficiently and effectively. Grantees had to implement activities, submit milestone deliverables, and provide associated documentation; payments were disbursed only upon successful verification of the required milestones. Moreover, SMEA required grantees to contribute to the cost of activities, which encouraged grantee buy-in.

*Using industry experts for technical evaluation helped select the grantees with the most potential for success.* At the evaluation stage, SMEA engaged industry experts to select the grantees most likely to succeed, scale, and grow. The selection panel judged the scope of scalability for an SME at the concept stage. SMEA provided mentorship and support to reduce risk and ensure businesses were sustainable. As a result, all 141 grantees survived — without a single failure in the portfolio — a resounding success. Not only did the SMEs survive and grow — they also raised significant PSI. For example, scale-up grantee Sehat Kahani raised \$1 million in a 2021 seed funding round, and innovation grantee Bykea raised \$5.1 million in Series A financing in 2019.

*Grant programs should be prepared to adapt in response to extraordinary circumstances.* Depreciation of the Pakistani rupee, increased prices, and higher taxes on imported goods created a liquidity crunch for grantees and SMEs in general. During Challenge Fund implementation, the Pakistani rupee depreciated significantly, causing drastic price hikes for imported equipment. This change in exchange rates imposed

a burden on grantees, due first to the reduced value of grants provided for equipment purchases and second to the additional funds grantees had to contribute to make up the difference. In response, SMEA adjusted grantee timelines and budgets within the parameters of the grants manual, applicable regulations, and existing vetting approvals. SMEA provided some grantees with up to 15% extra funding.

## CHAPTER 4. BUILDING A SUSTAINABLE FUTURE FOR INCLUSIVE ECONOMIC GROWTH

This section presents a discussion of areas that should continue to be strengthened, including recommendations for follow-on work that might complement the completed work.

### BUSINESS ENABLING ENVIRONMENT

*Keep up the momentum on policy reforms.* SMEA made remarkable progress in improving the BEE in Pakistan, with 33 policy or administrative reforms analyzed, 31 presented, and four approved. Reforms pending implementation need to be advanced by high-level champions. For example, the SME Policy needs to be taken forward. SMEA has designed an action plan for the creation of an SME Fund to provide BDS and develop the systems necessary to bridge market gaps. There is enough interest in SMEDA to roll out the fund, which has been approved in principle, but further engagement is needed with the Ministry of Finance and other stakeholders. It is critical that the government of Pakistan, the country's private sector, and development partners maintain the momentum created through SMEA by approving, implementing, and enforcing reforms to improve the BEE.

*Continue improving the BEE for fintech to promote financial inclusion.* As results from SMEA grantees UniKrew and Avanza demonstrate (see box on page 11), innovation in the fintech sector can promote financial inclusion, enabling more people to benefit from financial services and improving service delivery. In addition, greater access to fintech improves the BEE for SMEs in other sectors by facilitating secure payment systems and improved e-commerce technology. To improve the BEE for fintech, the government of Pakistan should consider implementing the recommended fintech and sandbox regulation. Future implementers and programs should design initiatives that support fintech SMEs to advance innovation in this crucial sector.

*Prioritize engagement with both the public and private sectors to improve the BEE.* At the outset of the activity, SMEA engaged with federal and provincial government officials to ensure that the activity designed demand-driven interventions to improve the BEE. Early on, SMEA formed the SME Core Group, consisting of experts from the academic, trade, industry, government, and financial sectors, which met regularly throughout the life of the activity. The Core Group provided SMEA's BEE team with valuable insights and inputs that informed its work to make policies more responsive to SME needs.

*Maintain relationships built on SMEA to facilitate future engagement with government.* Strong relationships are necessary for implementing partners to manage expectations between donors and government. In 2019, the BEE team successfully responded to a shift in USAID priorities outlined in the 2018-2023 Country Development Cooperation Strategy to prioritize activities in the NMDs. This required a shift in resources. SMEA's broad networks, existing relationships with government officials, and established credibility enabled the team to align activities with the changed priorities. New programs, such as the USAID Investment Promotion Activity, are maintaining these critical relationships with the government.



## **COMPETITIVENESS ENHANCEMENT**

*Carefully design and incentivize cost share requirements for training.* SMEs often hesitated to contribute a cost share toward obtaining BDS services, particularly for training. Among the reasons, SMEs are already bearing the opportunity cost of sending employees for training. Also, SMEs risk losing their investment, as trained employees tend to use the newly acquired skills to seek better employment opportunities. SMEs were more willing to contribute when BDSPs delivered something tangible, such as assistance with software, trade show participation, certifications, or company-specific growth plans. In response, SMEA reevaluated cost share levels and requirements for certain types of training. Future programs should consider flexible approaches to cost share requirements.

*Continue to build the capacity of BDSPs.* The BDSP network served as a key conduit for enabling SMEA to reach 6,030 SMEs with a wide range of BDS support. SMEA provided BDSPs with training to obtain new technical, marketing, and operational skills. In addition to expanding and improving the services provided to SMEs, this capacity building enabled BDSPs to develop, sustain, and grow their businesses. By building a strong network of BDSPs, SMEA created sustainability beyond the life of the activity. Future programs should continue to build the capacity of BDSPs to ensure sustainability and scale of interventions.

## **TECHNOLOGY AND INNOVATION**

*Continue to use online communications platforms to increase participation and inclusion.* In response to restrictions on movement and gathering due to the COVID-19 pandemic, SMEA adapted many of its interventions to an online format, using tools such as Microsoft Teams or Zoom to engage with participants. This notably increased participation of government officials in policy reform discussions. Online platforms offered flexibility for participants receiving BDS support and training, particularly for women, who were sometimes unable to attend in-person events due to limited mobility or child care needs. Future programs should continue to use online platforms when the necessary internet and telecommunications infrastructure exists, as this is likely to promote inclusion and increase participation.

*Importance of digitalization.* The post-pandemic survey highlighted the importance of digitalization for businesses, governments, and industries. Businesses that transitioned from traditional means of doing business to digital operations have benefited tremendously by gaining access to new local and international markets, expanding their operations, and most importantly, reducing their costs significantly. Future initiatives should be designed in a way that incorporates digitalization in some form.

## **ACCESS TO FINANCE**

*Consider establishing a fund to sustain access to finance.* Pakistan's public and private sector and development partners should examine innovative models that establish self-sustaining funds to assist SMEs. For example, a fund that takes equity in assisted companies or includes a buy-in component to replenish funds could provide a sustainable source of funds to extend support to additional SMEs. Future initiatives should explore avenues for establishing such a fund.



Khaalis and Khaas produces and delivers high-quality dairy products directly to consumers. Through a SMEA growth grant, Khaalis and Khaas procured equipment for milk manufacturing, and an automatic packaging unit to diversify its product line. As a result, Khaalis and Khaas increased its operational capacity to reach new clients. © SMEA

## ANNEX I. MONITORING, EVALUATION, AND LEARNING

This section contains a table summarizing the performance indicators, a discussion of their relative usefulness, and a summary of SMEA's comprehensive impacts and sustainability. All indicators relate to results from U.S. government (USG) assistance.

### SUMMARY OF PERFORMANCE INDICATORS

Indicator	LOA Target	Yearly Progress					Overall Progress
		FY1	FY2	FY3	FY4	FY5	
IR/Objective 3.1: Business enabling environment improved							
Ind. 3.1.1a: No. of economic growth policies advanced (No. of policies advanced by stage)	20 (60)	0 (0)	11 (29)	9 (22)	7 (25)	6 (20)	33 (96)
Ind. 3.1.2a: No. of micro, small, and medium enterprises that accessed finance	38	0	23	18	31	70	142
Ind. 3.1a: % of micro, small, or medium enterprises reporting improved business conditions	20%	-	-	-	-	52%	52%
Objective 3.2: Employment opportunities increased/IR1.3: Economic opportunities increased							
Ind. 3.2.0a_1.3c: No. of job opportunities and FTE jobs created	30,000 jobs 12,647 FTE	0	2,630 jobs 861 FTE	11,522 jobs 2,825 FTE	15,499 jobs 4,996 FTE	14,240 jobs 5,098 FTE	43,891 jobs 13,780 FTE
Ind. 3.2.3a: Number of micro, small, and medium enterprises supported	4,800	16	1,397	722	1,798	2097	6,030
Ind. 3.2.3b: Value of PSI leveraged to support entrepreneurship	\$50 million	0	\$1.32 million	\$13.25 million	\$17.02 million	\$19.95 million	\$51.54 million
Ind. GNDR-2: % of female participants in assisted programs designed to increase access to productive economic resources	20%	31%	29%	59%	33%	12%	28%
STIR-10: No. of innovations supported	59	0	0	17	20	12	49
SMEA GOAL: To improve competitiveness of Pakistani SMEs							
IR/Objective 1: Improved business enabling environment							
Ind. 1.1: No. of reforms consistent with World Bank benchmarks on doing business recommended for improvement	20	2	5	6	6	6	25
Ind. 1.1.1: No. of meetings with government officials regarding proposed changes in legal/institutional framework	40	0	57	39	38	9	143
Ind. 1.1.2: No. of entities receiving capacity enhancement on policy development, analysis, and implementation	10	3	27	5	4	6	45
Ind. 1.2.1: No. of organizations that participate in legislative proceedings and/or engage in advocacy	20	0	10	3	5	6	24

Indicator	LOA Target	Yearly Progress					Overall Progress
		FY1	FY2	FY3	FY4	FY5	
Ind. 1.2.2: No. of SMEs and private sector entities participating in events for public or private stakeholders to facilitate private sector engagement in policymaking	25	0	86	52	7	0	145
Ind. 1.2.3: No. of events for public or private stakeholders to facilitate private sector engagement in policymaking	13	0	9	11	16	2	38
IR/Objective 2: Improved economic performance of focus enterprises							
Ind. 2.1: Increase in value of incremental sales attributed to SMEA	80%	0	32%	35%	51%	51%	90% <sup>3</sup>
Ind. 2.2: Increase in value of incremental exports attributed to SMEA	70%	0	25%	47%	59%	41%	97% <sup>4</sup>
Ind. 2.3: Value of new PSI leveraged with SMEA's resources	\$50 million	0	\$1.32 million	\$13.25 million	\$17.02 million	\$19.95 million	\$51.54 million
Ind. 2.4: % of women-owned/led SMEs engaged through grant funding	10%	0	13%	30%	36%	18%	23%
Ind. 2.1.1: Increase in productivity of SMEA assisted SMEs	40%	0	5%	14%	25%	43%	43% <sup>5</sup>
Ind. 2.2.1: % of assisted SMEs that applied new technologies or management practices	80%	0	83%	73%	78%	81%	77%
Ind. 2.2.2: No. of new technologies and innovations introduced	20	0	9	1	5	8	23
Ind. 2.2.3: No. of SMEs in target sectors that report using electronic payment methods	1,000	0	186	201	325	127	839
Ind. 2.2.4: No. of persons receiving training on skill development	5,625	0	1,379	714	2,013	2,214	6,320
Ind. 2.2.5: No. of person-days of training on skill development	7,789	0	2,509	1,127	3,107	2,906	9,649
Ind. 2.3.1: % of assisted SMEs that engage with new markets and customers	80%	0	93%	12%	77%	81%	56%
Ind. 2.3.2: No. of assisted SMEs participating in international trade fairs or exhibitions	30	0	24	30	0	0	54
Ind. 2.3.3: No. of assisted SMEs achieving domestic or internationally recognized standards or certification	100	0	37	46	23	21	127
Ind. 2.4.1: % of SMEs receiving BDS	80%	0	87%	94%	100%	100%	96%
Ind. 2.4.2: % of assisted SMEs with improved financial worthiness	70%	0	76%	69%	82%	72%	75%
Ind. 2.5.1: No. of assisted women's SMEs accessing financial services	60%	0	60%	82%	34%	65%	58%
Ind. 2.5.2: No. of assisted women's SMEs entering new markets	70%	0	76%	33%	77%	93%	69%

<sup>3</sup> Yearly percentages are derived using rolling baselines; for each year, annual sales value of the previous year is used as the baseline. For the life of the activity, the pre-assistance baseline (first year of each SME) is compared with the final year's sales value. Of assisted SMEs, 69% reported positive incremental sales, with an overall incremental sale of 90%.

<sup>4</sup> Same as above: Of assisted exporters, 70% reported positive incremental export sales, with an overall incremental export sale of 97%.

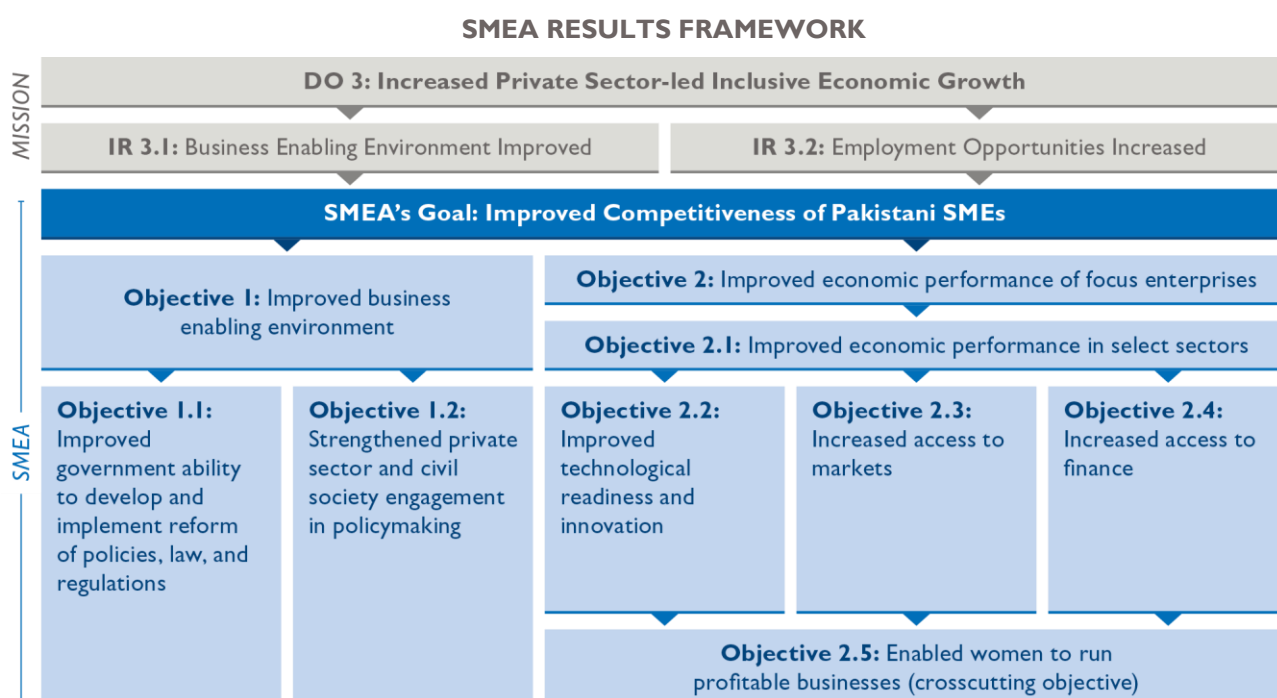
<sup>5</sup> Productivity is calculated using sales-to-employee ratio for the first year's baseline, compared with the final year's progress values for each SME.

Indicator	LOA Target	Yearly Progress					Overall Progress
		FY1	FY2	FY3	FY4	FY5	
Ind. 2.5.3: % increase in sales revenue at assisted women-led SMEs	50% increase of 60% SMEs	0	78%	8%	89%	37%	46%
DO 3: Increased private sector-led inclusive economic growth							
Ind. EG 5.2.-1: % of firms receiving USG-funded technical assistance for improving business performance	80% of assisted SMEs	0	87%	94%	100%	100%	96%
Ind. EG 5.2.-2: % of private sector firms that have improved management practices or technologies	80% of assisted SMEs	0	83%	73%	78%	81%	77%



## ASSESSMENT OF INDICATORS' RELATIVE USEFULNESS

The selected performance indicators measured the goal, objectives, and sub-objectives outlined in SMEA's results framework (see graphic below). The indicators provided an evidence base to test the theory of change and reflect objectively verifiable measures to evaluate the results framework. SMEA identified performance indicators at the output, outcome, and impact level, reflecting a cause-and-effect relationship at different levels of implementation. The monitoring, evaluation, and learning (MEL) team carefully selected the indicators to align with both the activity's results framework and USAID/Pakistan's Economic Growth Strategy and Country Development Cooperation Strategy for Pakistan. In addition, SMEA adopted a few performance indicators from USAID/Pakistan's strategic results framework to establish a direct correlation between activity indicators and mission country-level indicators.



At the goal level, the number of jobs or employment attributed to SMEA is the most useful and relevant measure to assess the improvements made to make SMEs more competitive. It is a direct measure to test the activity's development hypothesis: "Increasing the competitiveness of SMEs will result in poverty reduction, job creation, and entrepreneurship development, thereby contributing to increased gross domestic product." This reflects the direct impact of SMEA interventions and SMEA's contribution to Pakistan's economy. This also points toward sectors and interventions that create the most impact and helped management in making course corrections.

Similarly, the second goal-level indicator — the proportion of female participation in SMEA to increase access to productive economic resources — is a reasonably good and valid measure to assess the participation of women entrepreneurs in SMEA-assisted SMEs. However, its placement at the goal level

may not be as relevant since disaggregated jobs data for women may be a better indicator of impact. However, this indicator helped ensure a focus on gender inclusion in interventions.

At the outcome level, the MEL team chose five indicators to measure changes or improvements in the BEE and economic performance of focus enterprises. Indicators for Objective 1 (BEE) track the stages of policy development and organizations engaged in the policy development process. Indicators for Objective 2 (Competitiveness Enhancement) measure the quantitative impact of activity interventions at the entity level. These indicators align with USAID's Intermediate Result (IR) 3.1: Business Enabling Environment Improved and IR 3.2: Employment Opportunities Increased. Through these indicators, SMEA tracked policy interventions at five different stages, starting from analysis to implementation. These indicators covered the complete policy development and implementation life cycle and provided insight into bottlenecks at different stages while working with the public sector. To assess the economic performance of focus enterprises, SMEA chose indicators capturing data on incremental sales, exports, and PSI. These three indicators directly linked with the theory of change and helped SMEA identify sectors, partners, and interventions, ensuring maximum results and return on investments. They also helped the MEL team analyze time-series data of partner enterprises to assess change created during the activity's lifetime.

At the output level, the MEL team tracked direct and short-term results of programmatic interventions. Output indicators covered seven sub-objectives under the two main objectives. These included indicators on the policy development process, capacity building, engagement, skills development, adoption of technologies or management practices, and learning imparted through training programs and technical assistance. All output indicators were linked with higher-level results and indicators in the results chain. Output indicators were critical for SMEA, as many short-term interventions were designed to impart required knowledge and skills for micro and small enterprises. However, they indirectly contributed to outcome- and goal-level results since they were designed to contribute to sub-objectives only. Under Sub-Objective 2.5, "Enabled women to run profitable businesses," the MEL team selected three indicators that were a subset of other indicators and could have been managed through disaggregated data. Similarly, one indicator under Sub-Objective 2.1, "Improved economic performance in selected sectors," relates to the possible increase in the productivity of assisted SMEs. The indicator is a useful measure; however, since increasing SMEs' productivity requires dedicated programming and support, the indicator requires dedicated studies and longitudinal data to see the change over time.

Overall, the MEL team selected indicators based on best practices and indicators that had proven useful in similar economic growth projects. For SMEA, these indicators were relevant and reliable measures to assess change over time. USAID's Monitoring and Evaluation Team assessed these indicators during data quality assessment exercises and found them to be valid, reliable, and relevant measures.

## ACTIVITY IMPACT AND SUSTAINABILITY

SMEA's MEL team used quarterly surveys to collect data on its direct impacts. The team also commissioned two studies to estimate the direct impact of machinery and equipment beyond the life of the activity and the indirect impact on associated sectors. This section summarizes those results.

**DIRECT IMPACT AND SUSTAINABILITY.** To understand the long-term impact of SMEA interventions, particularly its investments in physical and human capital, and to establish a framework for estimating the activity's comprehensive impact, the research team used the net present value approach to calculate the impact of investments beyond the life of activity. By modeling capital investments as depreciating consistent with tax legislation, the team estimated the lifespan for an intervention's results stream as five years. Assessing future results based on the lesser of forecasted sales and the last observed level of sales provided a reasonably conservative discounted impact stream for post-activity years. The team calculated the net present value only for the Challenge Fund grants program, which made capital investments and initiated most grants after 2020. Many grants are expected to have an impact through 2027. The team found that the investments have the potential to generate a sales value of around \$415 million based on the calculated net present value of total sales (see table).

	BASE YEAR (ENDLINE)	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Forecast Sales	\$78 million (Observed)	\$88 million	\$100 million	\$114 million	\$129 million
Discount Factor	1.000	0.909	0.826	0.751	0.683
Impact	\$78 million	\$80 million	\$83 million	\$86 million	\$88 million

**INDIRECT IMPACT.** The multiplier study used the Regional Input-Output Modeling System (RIMS II) to investigate the comprehensive benefits realized indirectly for associated sectors in backward and forward linkages (see table, next page).<sup>6</sup> The study estimated supply chain sales and jobs-based income effects based on Pakistan economic data and interviews with direct and indirect beneficiaries. It focused on the indirect and induced impacts of interventions like digital marketing, certifications, equipment and machinery, and digital solutions in three sectors: agribusiness, ICT, and hospitality. The research team applied a suite of economic impact multipliers to SMEA's key economic indicators (e.g., output, income, employment) to estimate the direct and indirect benefits of the activity's investments.

The multiplier study found that domestic sales multipliers ranged from 2.02 for hospitality to 1.55 for ICT. Jobs-to-jobs multipliers ranged from 3.24 for hospitality to 1.96 for ICT. Induced job multipliers ranged from 1.07 for ICT to 1.59 for hospitality with corresponding increases in induced production

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<sup>6</sup> RIMS II is provided by the U.S. Department of Commerce's Bureau of Economic Analysis to support local and regional governments in estimating the direct and indirect benefits of investment projects with reasonable accuracy. Final demand (domestic sales) multipliers estimate the total sales change across all industries for every dollar generated in a given industry (indirect sales). Jobs-to-jobs multipliers estimate total job changes across all industries for each new job created in a given industry (indirect jobs). Induced multipliers account for the economic activity generated through the spent income of each new job in a given industry.

derived from relative salary rates. The indirect impact on sales ranged from 60% in agribusiness to 221% in hospitality. Indirect job creation ranged from 103% in ICT to 283% percent in hospitality.

DIRECT PLUS INDIRECT EFFECTS MULTIPLIERS						
Sector	Backward		Forward		Combined	
	Final demand (domestic sales) multipliers	Jobs-to-jobs multiplier	Induced production per job	Induced jobs per job	Total production	Total jobs to jobs
Agribusiness	1.37	1.91	1,242.66	0.1674	1.60	2.08
Hospitality	2.02	3.24	1,756.03	0.5910	3.21	3.83
ICT	1.55	1.96	353.95	0.0700	1.66	2.03

These gains resulted in impressive returns on USAID's investment, with each dollar of sales generating almost \$2 in associated industries. Similarly, every job created in SMEA's target sectors generated two additional jobs in associated industries.



## ANNEX 2. GRANTEE LIST

No.	Grantee Name	Grant Type	Sector	Province
1	A.N. Engineering Industries	SME growth	Light Engineering	Punjab
2	Aayz International	Innovation	Light Engineering	Punjab
3	Aayz International	Scale-up	Light Engineering	Punjab
4	Affordable.pk	SME growth	ICT - Women-led business	Punjab
5	Affordable.Pk (Pvt) Ltd.	Scale-up	ICT - Women-led business	Punjab
6	AJR Metal Fabricators (Pvt) Ltd.	SME growth	Light Engineering	Punjab
7	Al Arabia Enterprises	SME growth	Light Engineering - Women-led business	KP
8	Amnas Naturals and Organics	SME growth	Agribusiness - Women-led business	Punjab
9	Anchor Trading Company	SME growth	Agribusiness and Processing	Sindh
10	Asanii	Innovation	ICT	Sindh
11	Ashrafia Food and Processing Industries	SME growth	Agribusiness and Processing	Punjab
12	ASL Ace Star Logistics (Pvt) Ltd.	Scale-up	Logistics	Balochistan
13	ASL Ace Star Logistics (Pvt) Ltd.	SME growth	Agribusiness and Processing	Sindh
14	Assan Ticket	SME growth	Hospitality - Youth	Islamabad
15	Attirish	SME growth	Women-led business	Punjab
16	AZ Corp Entertainment Pvt Ltd.	SME growth	ICT	Sindh
17	Balir and Company	SME growth	Agribusiness and Processing	KP
18	Balitex (Pvt) Ltd.	SME growth	Textile	Punjab
19	Blue Star Composting and Recycling	SME growth	Agribusiness and Processing	KP
20	Bola Gema Pakistan	SME growth	Textile	Punjab
21	Brand Batteries SMC (Pvt) Ltd.	SME growth	Light Engineering	KP
22	Butt Footwear	SME growth	Textile - Youth	Punjab
23	Bykea Technologies Pvt Ltd.	Innovation	ICT	Sindh
24	Chahat Food Industries Ltd.	SME growth	Women-led business	Punjab
25	Check-Box Media (Pvt) Ltd.	SME growth	ICT - Women-led business	Punjab
26	Closet	Innovation	Text - Women-led business - Youth	Sindh
27	Colors Pakistan	SME growth	Text - Women-led business	Sindh
28	Colors Pakistan	Scale-up	Textile - Youth	Sindh
29	Community Innovation Hub (Pvt) Ltd. - Sehat Kahani	SME growth	ICT - Women-led business	Sindh
30	Community Innovation Hub (Pvt) Ltd. - Sehat Kahani	Scale-up	ICT - Women-led business	Sindh
31	Conatural Beauty (Pvt) Ltd.	SME growth	Women-led business	Punjab
32	Conatural Beauty (Pvt) Ltd.	Scale-up	Women-led business	Punjab
33	ConnectHear	SME growth	ICT - Women-led business	Sindh
34	Dar Traders	SME growth	Light Engineering	Punjab
35	Darewro Delivery Services (Pvt) Ltd.	SME growth	Logistics - Youth	KP
36	Darewro (Pvt) Ltd.	Scale-up	ICT	KP
37	Down Town Bistro	SME growth	Hospitality	KP
38	Earth Gold (Pvt) Ltd.	SME growth	Agribusiness and Processing	Sindh
39	Earthfactor (Pvt) Ltd.	Innovation	Hospitality	Islamabad
40	Edkasa	SME growth	ICT - Women-led business	Punjab
41	Elcon Technologies	SME growth	Light Engineering	Punjab
42	Electroline	SME growth	Light Engineering	Sindh
43	Fabiricon (Pvt) Ltd.	SME growth	Light Engineering	Sindh
44	Farmers Cheese Making	Innovation	Agribusiness and Processing	Punjab
45	Farooq Storage and Oil Mills	SME growth	Agribusiness and Processing	Punjab

No.	Grantee Name	Grant Type	Sector	Province
46	Farooq Storage and Oil Mills	Scale-up	Agribusiness and Processing	Punjab
47	FMA (Pvt) Ltd.	Scale-up	Hosp/ICT	Sindh
48	Fowrry Technologies (Pvt) Ltd.	Innovation	Agribusiness and Processing	Islamabad
49	Franchise Services (Pvt.) Ltd.	Innovation	ICT	KP
50	Frank Fries (Pvt) Ltd.	Innovation	Agribusiness - Women-led business	Punjab
51	Fresh To Go	Innovation	Agribusiness and Processing - Youth	Sindh
52	Fresh To Go	Scale-up	Agribusiness and Processing	Sindh
53	Galaxy Polymer Engineering (Pvt) Ltd.	SME growth	Light Engineering	Sindh
54	Green Land Engineers	SME growth	Light Engineering	Punjab
55	GreenO Corporation (Pvt) Ltd.	SME growth	Agribusiness and Processing	Sindh
56	GreenO Corporation (Pvt) Ltd.	Scale-up	Agribusiness and Processing	Sindh
57	Greenwend Energy (Pvt) Ltd.	SME growth	Light Engineering	KP
58	Hadron Solar (Pvt) Ltd.	Innovation	Light Engineering	Punjab
59	Hallmark Textiles	Innovation	Textile - Youth	Punjab
60	Haseeb Farming	SME growth	Agribusiness and Processing	Punjab
61	Hobnob Bakeries	SME growth	Hospitality	Sindh
62	Home Medics (Pvt) Ltd.	SME growth	Women-led business	Islamabad
63	Horizon Fashions	Innovation	Textile	Punjab
64	House of Latif	SME growth	Text - Women-led business	Punjab
65	iEngineering (Pvt) Ltd.	SME growth	ICT	Islamabad
66	Jazaa Chemie	SME growth	Logistics	Punjab
67	Jessie's Cafe (Pvt) Ltd.	SME growth	Hospitality	Islamabad
68	Karacheese	SME growth	Agribusiness and Processing - Youth	Sindh
69	KB Business Services	Innovation	Agribusiness and Processing	Punjab
70	Kevlaar (Pvt) Ltd.	Innovation	Agribusiness and Processing	Sindh
71	Khaalis and Khaas (Pvt) Ltd.	SME growth	Agribusiness and Processing	Islamabad
72	Khanmart SMC (Pvt) Ltd.	Innovation	ICT/Agri	Balochistan
73	Khoj (Find My Adventure)	Innovation	Hospitality - Youth	Sindh
74	Kissan Engineering (Pvt) Ltd.	SME growth	Light Engineering	Punjab
75	Kohenoor International	SME growth	Agribusiness and Processing	Sindh
76	Kohenoor International	Scale-up	Agribusiness and Processing - Youth	Sindh
77	Komal Nasir	SME growth	Women-led business	Punjab
78	Lahore New Media Labs	SME growth	Hospitality	Punjab
79	Master Engineering Company	SME growth	Light Engineering	Punjab
80	Mechanical Design Realm	SME growth	Light Engineering	Punjab
81	Mechanical Design Realm	Scale-up	Light Engineering	Punjab
82	Mega Green	Innovation	Light Engineering - Youth	Punjab
83	Mega Green	Scale-up	Light Engineering - Youth	Punjab
84	Mera Sabaq Learning Systems (Pvt) Ltd.	SME growth	ICT	Sindh
85	Merafuture SMC (Pvt) Ltd.	Innovation	ICT - Women-led business	Islamabad
86	Mountain Fruits (Pvt) Ltd.	Innovation	Agribusiness and Processing	Gilgit-Baltistan
87	Mountain Story (Pvt) Ltd.	SME growth	Hosp - Women-led business	Gilgit-Baltistan
88	Mukhtar Agro Farmer Solutions	SME growth	Agribusiness and Processing	Punjab
89	My Travel Guide (Pvt) Ltd.	Innovation	Hospitality	Islamabad
90	Naeem Enterprise	SME growth	Textile	Sindh
91	Nano IT Solutions	SME growth	ICT	KP

No.	Grantee Name	Grant Type	Sector	Province
92	National Club	SME growth	Hospitality	KP
93	North Naturals Pakistan (Pvt) Ltd.	Innovation	Agribusiness and Processing	KP
94	Oceanic Cruise (Pvt) Ltd.	SME growth	Hospitality	Sindh
95	Pakistan Fruit Importers and Exporters Syndicate (Pvt) Ltd.	SME growth	Logistics	Sindh
96	PALS Outdoors (Pvt) Ltd.	Innovation	Hospitality	Sindh
97	Paypro (Pvt) Ltd.	Innovation	ICT/Access to Finance	Sindh
98	Play Furn	SME growth	ICT - Women-led business	Sindh
99	PREPAC Engineering Industries (Pvt) Ltd.	SME growth	Light Engineering	Punjab
100	PriceOye (Pvt) Ltd.	Innovation	ICT	Islamabad
101	Prime Tolling Company (Pvt) Ltd.	SME growth	Women-led business	Sindh
102	Pronto Spaces (Pvt) Ltd.	SME growth	Women-led business	Punjab
103	R. K. Gears (Pvt) Ltd	SME growth	Light Engineering	Punjab
104	Raiz and Sajjad Surgical (Pvt) Ltd.	Innovation	Light Engineering	Punjab
105	Rasai Technologies (SMC-Pvt) Ltd.	Innovation	ICT	Islamabad
106	Red Marker Systems (Pvt) Ltd.	Innovation	Women-led business	Punjab
107	Research For Enterprise Development (SMC-Pvt) Ltd.	SME growth	Agribusiness - Women-led business	Punjab
108	Royal Dairies and Food Products	Innovation	Agribusiness - Women-led business	KP
109	Royal Dairies and Food Products	Scale-up	Agribusiness and Processing	KP
110	Salman Corporation (Pvt) Ltd.	SME growth	Agribusiness and Processing	Islamabad
111	Sana Traders	Innovation	Women-led business	Sindh
112	SAS PVC Industries	SME growth	Light Engineering	Punjab
113	Shah Alam Dairies	Innovation	Agribusiness and Processing	KP
114	Shazday Fruits (Pvt) Ltd.	SME growth	Agribusiness and Processing	Gilgit-Baltistan
115	Step Robotics (Pvt) Ltd.	Innovation	ICT	Islamabad
116	Sun Importers and Exporters	SME growth	Textile	Punjab
117	Super Bird (Pvt) Ltd.	SME growth	Agribusiness and Processing	Punjab
118	Tech Valley Pvt. Ltd	Innovation	Hospitality	KP
119	Techlets (Pvt) Ltd.	Innovation	ICT - Youth	Islamabad
120	Techlets (Pvt) Ltd.	Scale-up	ICT - Youth	Islamabad
121	Terry Tex International	SME growth	Text - Women-led business	Sindh
122	The Artisan Cheese Factory	SME growth	Agribusiness and Processing	Punjab
123	The Cookery Lahore	Innovation	Hospitality	Punjab
124	Trademor Marketing (Pvt) Ltd.	Scale-up	ICT	Islamabad
125	Transconomy	SME growth	ICT	Islamabad
126	Unicorn Black	SME growth	ICT	Islamabad
127	Unicorn Black (Pvt) Ltd.	Scale-up	ICT	Islamabad
128	UniKrew Solutions (Pvt) Ltd.	Innovation	ICT	Sindh
129	UniKrew Solutions (Pvt) Ltd.	Scale-up	ICT	Sindh
130	Vceela (Pvt) Ltd.	Innovation	ICT	Punjab
131	Vceela (Pvt) Ltd.	Scale-up	ICT	Punjab
132	Velocity Textiles	SME growth	Textile	Sindh
133	VRK Studios	SME growth	Women-led business	Islamabad
134	Wahdat Dairy Farm	SME growth	Agribusiness and Processing	Islamabad
135	Waste Busters	Innovation	ICT - Women-led business	Punjab
136	Wellness Foods Processing (Pvt) Ltd.	SME growth	Agribusiness - Women-led business	Sindh
137	Zabiha Halal Meat Industries (Pvt) Ltd.	Scale-up	Agribusiness and Processing	Punjab

No.	Grantee Name	Grant Type	Sector	Province
138	Zabiha Halal Meat Industries SMC (Pvt) Ltd.	SME growth	Agribusiness and Processing	Punjab
139	Zahra Ebrahim Furniture and Interiors	SME growth	Women-led business	Sindh
140	Zarkun Enterprises	SME growth	Textile	KP
141	Zeal Food and Beverages (Pvt) Ltd.	SME growth	Agribusiness and Processing - Youth	KP





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